REPORTING AND FINANCIAL STATEMENTS

Overview

The Board is committed to ensuring that the Company and its subsidiaries maintain best-practice governance principles and adhere to the highest ethical standards. The basis for these is set out in a Board Charter and in policies and procedures established and maintained by the Company.

Role of the Board and management

The Board is responsible to the shareholding Ministers (the Minister of Finance and the Minister of Science and Innovation) for directing and supervising the management of the Company. This includes establishing the Company's objectives in line with the Statement of Core Purpose agreed with the shareholders, developing major strategies, managing risks, determining key policies and monitoring management's performance.

The Board delegates management of the day-to-day affairs and responsibilities of the Company to the Chief Executive. The Chief Executive leads the Executive team whose role it is to implement the strategies for achieving the Company's objectives. A formal delegated authorities policy sets the operational and expenditure delegations within which the Chief Executive and the Executive operate.

Appointment of Directors and composition of the Board

Under the Company's Constitution, the Board can comprise up to nine non-executive Directors. Directors are appointed by the shareholders. The term is generally three years with reappointment for further terms at the discretion of the shareholders. The shareholders also appoint the Chairman and Deputy.

On appointment, Directors receive guidelines on the shareholders' expectations, which are in addition to those required by the Companies Act 1993. They also have access to online resources that contain key information on the Company and its subsidiaries, the Board Charter, the Statement of Core Purpose, terms of reference for the committees of the Board, details of directors' and officers' insurance and the Deed of Indemnity. New Directors also have the benefit of an induction programme to provide them with an understanding of the Company's operations, business and the markets in which it operates.

Operation of the Board

The Board operates in accordance with the Board Charter. It had three committees operating during the year – the Audit and Risk Committee, the Remuneration Committee and the Health, Safety and Environment Committee. The Science Committee was re-established at the end of the financial year. All committees are established under agreed terms of reference.

Directors' meetings

The full Board had 11 formal meetings during the year ended 30 June 2016. There was a programme of site visits and presentations to the Board by the Executive, management and science staff to enable Directors to keep informed of key aspects of the Company's activities.

Audit and Risk Committee

The Audit and Risk Committee supports the Board in fulfilling its responsibilities in relation to financial reporting, external audit, risk management, legislative compliance and internal audit. Members of the committee were Sarah Haydon (Chair), Nicola Crauford, Belinda Vernon and James Johnston. The Chief Executive, the Chief Financial Officer, the Risk and Assurance Analyst and representatives of Deloitte, the external auditors, are normally in attendance.

The committee met three times during the past financial year. The committee reviewed the external audit plan and reports, risk and internal control assessments, the internal audit plan and reports, and statutory compliance reports. It also reviewed and recommended to the full Board the approval of the half-year and annual financial statements and amendments to key policies. Minutes of the committee meetings were tabled at the subsequent Board meetings, and key items were discussed and resolved by the full Board.

Meetings in the year to 30 June 2016

	Board meetings		Audit and Risk		Remuneration		Health, Safety and Environment	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Nicola Crauford	11	11	3	3	5	5	4	3
Ken Shirley	11	9			5	5		
Chris Bush	5	5					2	2
Sarah Haydon	11	10	3	3				
James Johnston	10	10	2	1			4	4
Belinda Vernon	11	11	3	3			4	4
Steve Weaver	11	11						

Remuneration Committee

The Remuneration Committee supports the Board in fulfilling its responsibilities in relation to the recruitment of the Chief Executive, the review and setting of the Chief Executive's remuneration and the framework for the remuneration of the Executive and the review of their performance. Members of the committee were Ken Shirley (Chair) and Nicola Crauford. The Chief Executive and the General Manager, Human Resources, are normally in attendance.

The committee met five times during the year. Matters discussed by the committee were reported back to the subsequent Board meeting, and key items were discussed and resolved by the full Board.

Health, Safety and Environment Committee

This committee supports the Board in fulfilling its responsibilities relating to health, safety and environment matters. It sets the direction for health and safety and environmental strategies and policies, and monitors and reviews the performance and effectiveness of the policies and related systems. The members of the committee were Belinda Vernon (Chair), Nicola Crauford, James Johnston and Chris Bush. The Chief Executive, General Manager Human Resources, Health and Safety Advisor, Chief Financial Officer and Environmental Compliance Officer are normally in attendance.

The committee met four times in the financial year. Matters discussed by the committee were reported back to the subsequent Board meeting and discussed by the full Board.

Science Committee

The Science Committee supports the Board in fulfilling its responsibilities on the direction, conduct and effectiveness of research undertaken by the Company. The committee was re-established at the end of the financial year with Steve Weaver (Chair) and Nicola Crauford appointed as members.

Conflicts of interest

All Directors are required to disclose any conflicts of interest or if they have an interest in any transaction, in which case, they will generally not be entitled to partake in the discussion or vote in relation to the transaction. To facilitate the disclosure of interests and identification of any actual or perceived conflicts of interest, the Company's Disclosure of Interests Register is reviewed and updated at the start of each Board meeting.

Provision of professional services

Except in exceptional circumstances, Directors will not provide professional services to the Company. This is to avoid a conflict of interest – actual or perceived. No Directors provided professional services to the Company during the year.

Independent professional advice

Directors are entitled to obtain independent professional advice relating to the affairs of the Company or to their duties, at the Company's expense. No independent professional advice was sought or obtained during the year.

Board evaluation

The Board evaluates its own performance and provides the results of the evaluation to the shareholders' representative on a periodic basis.

For the year ended 30 June 2016

The Directors have pleasure in presenting the audited financial statements of GNS Science for the year ended 30 June 2016. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the Financial Reporting Act 1993.

The Auditor-General is the statutory auditor pursuant to section 21 of the Crown Research Institutes Act 1992. The Auditor-General has appointed Deloitte to audit the financial statements and to express an opinion on them. Their report is set out on page 77.

Principal activity

GNS Science's principal activity is to conduct scientific research, consultancy services, and product development in earth sciences and isotope technologies in accordance with the principles for the operation of Crown Research Institutes set out in sections 4 and 5 of the Crown Research Institutes Act 1992.

Board composition

Dr Nicola Crauford was appointed to the Board on 1 July 2015 as Chairman, Chris Bush was appointed to the Board on 1 January 2016, James Johnston resigned from the Board on 31 May 2016 and Ken Shirley retired from the Board on 30 June 2016.

Remuneration of Directors

Directors' fees are set by the shareholding Ministers annually. Fees paid to Directors during the year were:

	2016 $	2015 $
Nicola Crauford	46,000	-
Tom Campbell	-	46,000
Ken Shirley	28,750	28,750
Chris Bush	11,500	-
Sarah Haydon	23,000	23,000
James Johnston	21,083	23,000
Claire McGowan	-	23,000
Steve Weaver	23,000	23,000
Belinda Vernon	23,000	23,000

Employee remuneration

In accordance with section 211(1)(g) of the Companies Act 1993, the numbers of employees who received remuneration and other benefits totalling $100,000 or more, in $10,000 bands, during the year were:

$000s	2016	2015
100–110	22	24
110–120	31	29
120–130	12	12
130–140	15	18
140–150	13	14
150–160	12	8
160–170	5	6
170–180	4	3
180–190	2	3
190–200	2	-
200–210	-	1
220–230	3	-
230–240	2	1
240–250	-	3
250–260	1	-
260–270	-	1
270–280	2	2
450–460*	-	1
790–800*	1	

* Chief Executive

Subsidiaries

The Company has five subsidiary companies:

- Isoscan Limited
- Geological Surveys (New Zealand) Limited
- Isoscan Food Limited
- Geological Risk Limited
- GNS Science International Limited.

Dr Nicola Crauford and Dr Neal Wai Poi were Directors of each of the subsidiary companies at 30 June 2016.

Dividends

A dividend of $250,000 was declared on 22 June 2016 in respect of the 2016 financial year.

Directors' indemnity

The Company has insurance cover for Directors in respect of any act or omission in their capacity as a Director of the Company. Directors have declared their interests in a Deed of Indemnity dated 15 February 2012, whereby the Company indemnifies Directors against any liability for any act or omissions incurred in their capacity as a Director.

Events subsequent to balance date

The Directors are not aware of any matter or circumstance since the end of the financial year not otherwise dealt with in this report that has, or may have, a significant effect on the operation of the Company.

Certifications

The Directors confirm that the Company has operated in accordance with the Crown Research Institutes Act 1992 and the Companies Act 1993 during the year.

The activities undertaken by the Company in the year are in accordance with GNS Science Statement of Core Purpose.

No written direction was received from either shareholding Minister in the year.

For and on behalf of the Directors

Chairman
24 August 2016

Note: Directors' disclosures can be found on page 50.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

in thousands of New Zealand dollars	Note	**Actual 2016**	Budget 2016	Actual 2015
Revenue				
Research contracts		**49,452**	51,771	48,119
Commercial	3	**20,994**	22,113	20,548
GeoNet		**11,752**	12,000	9,165
Other income		**45**	33	46
Total revenue	**3**	**82,243**	85,917	77,878
Expenses				
Employee benefit expense		**38,071**	38,332	37,150
Operating expenses	4	**31,675**	33,880	30,423
GeoNet direct expenses		**5,576**	5,717	3,974
Depreciation	7	**4,349**	4,780	4,224
Amortisation	8	**1,165**	1,200	1,328
Total expenses		**80,836**	83,909	77,099
Net profit before gain on sale of intellectual property		**1,407**	2,008	779
Gain on sale of intellectual property		**–**	–	1,120
Net profit before interest and tax		**1,407**	2,008	1,899
Interest income		**266**	180	251
Profit before tax		**1,673**	2,188	2,150
Income tax expense	5	**(506)**	(613)	(398)
Profit after tax	14	**1,167**	1,575	1,752
Other comprehensive income		**–**	–	–
Total comprehensive income attributable to owners		**1,167**	1,575	1,752

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

in thousands of New Zealand dollars	Note	Share capital	Retained earnings	Total equity
Balance at 1 July 2014		**6,167**	**22,876**	**29,043**
Total comprehensive income		–	1,752	1,752
Dividend	13	–	(250)	(250)
Balance at 30 June 2015		**6,167**	**24,378**	**30,545**
Total comprehensive income		–	1,167	1,167
Dividend	13	–	(250)	(250)
Balance at 30 June 2016		**6,167**	**25,295**	**31,462**

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

As at 30 June 2016

in thousands of New Zealand dollars	Note	**Actual 2016**	Budget 2016	Actual 2015
Equity				
Share capital	6	**6,167**	6,167	6,167
Retained earnings		**25,295**	25,882	24,378
Total equity		**31,462**	32,049	30,545
Represented by:				
Non-current assets				
Property, plant and equipment	7	**30,324**	32,493	30,512
Intangible assets	8	**4,086**	4,950	4,322
Investments		**30**	–	30
Total non-current assets		**34,440**	37,443	34,864
Current assets				
Cash and cash equivalents		**10,047**	2,488	6,546
Trade receivables	9	**5,860**	8,580	9,018
Prepayments		**1,846**	1,500	1,663
Work in progress		**1,580**	3,450	2,239
Current tax		**–**	–	254
Total current assets		**19,333**	16,018	19,720
Total assets		**53,773**	53,461	54,584
Non-current liabilities				
Deferred tax	10	**720**	1,260	901
Non-current provisions	11	**1,777**	2,080	1,746
Total non-current liabilities		**2,497**	3,340	2,647
Current liabilities				
Trade and other payables	12	**7,541**	7,556	8,718
Current provisions	11	**2,692**	2,266	2,700
Revenue in advance		**9,157**	8,000	9,724
Provision for income tax		**174**	–	–
Provision for dividend	13	**250**	250	250
Total current liabilities		**19,814**	18,072	21,392
Total liabilities		**22,311**	21,412	24,039
Net assets		**31,462**	32,049	30,545

The accompanying notes form part of these financial statements.

For and on behalf of the Board:

Dr Nicola Crauford
Chairman
24 August 2016

Sarah Haydon
Deputy Chairman
24 August 2016

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

in thousands of New Zealand dollars	Note	**Actual 2016**	Budget 2016	Actual 2015
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		**85,512**	83,587	75,729
Interest received		**247**	180	251
		85,759	83,767	75,980
Cash was applied to:				
Payments to suppliers and employees		**(76,998)**	(77,577)	(71,038)
Income tax paid		**(259)**	(613)	(941)
		(77,257)	(78,190)	(71,979)
Net cash flows from operating activities	14	**8,502**	5,577	4,001
Cash flows from investing activities				
Cash was provided from:				
Sale of property, plant and equipment and intellectual property		**33**	–	1,312
		33	–	1,312
Cash was applied to:				
Investment in KiwiNet		**–**	–	(30)
Purchase of property, plant and equipment and intangible assets		**(4,749)**	(7,800)	(5,860)
		(4,749)	(7,800)	(5,890)
Net cash flows from investing activities		**(4,716)**	(7,800)	(4,578)
Cash flows from financing activities				
Cash was applied to:				
Dividends paid		**(250)**	(250)	(250)
		(250)	(250)	(250)
Net cash flows from financing activities		**(250)**	(250)	(250)
Net increase in cash and cash equivalents		**3,536**	(2,473)	(827)
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(35)**	–	106
Opening cash and cash equivalents		**6,546**	4,961	7,267
Closing cash and cash equivalents		**10,047**	2,488	6,546

The accompanying notes form part of these financial statements.

1. Statement of accounting policies

1.1 Reporting entity and activities

The Institute of Geological and Nuclear Sciences Limited is established under the Crown Research Institutes Act 1992 and the Companies Act 1993. Its subsidiary companies are established under the Companies Act 1993. The financial statements have been prepared in accordance with the Crown Research Institutes Act 1992, the Public Finance Act 1989, the Companies Act 1993, the Crown Entities Act 2004 and the Financial Reporting Act 2013.

Consolidated financial statements for the Group comprising the Institute of Geological and Nuclear Sciences Limited (the Company) and its subsidiaries are presented. The subsidiaries of the Company are:

- Isoscan Limited
- Isoscan Food Limited
- Geological Surveys (New Zealand) Limited
- Geological Risk Limited
- GNS Science International Limited.

The principal activities of the Group are to undertake geoscience and isotope science research, development and technology transfer, predominantly in New Zealand.

1.2 Statement of compliance

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

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

1.3 Significant accounting policies

(a) Measurement basis

The financial statements of the Group have been prepared on an historical cost basis, except that derivative financial instruments are measured at their fair value.

The financial statements are presented in New Zealand dollars, which is the Group's functional currency. All values are rounded to the nearest thousand dollars.

(b) Subsidiaries – basis of consolidation

Subsidiaries are those entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities.

The financial statements of subsidiaries are included in these consolidated financial statements using the purchase method of consolidation. The effects of intra-group transactions are eliminated in the consolidated financial statements.

(c) Interest in joint arrangements

A joint arrangement is an arrangement whereby the Company or its subsidiaries have joint control over an entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities of that entity require the unanimous consent of the parties sharing control.

A joint arrangement is either a joint operation or a joint venture. For a joint operation, the Group recognises its share of assets, liabilities, revenues and expenses on a line-by-line basis using the proportionate method. For a joint venture, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

(d) Critical accounting estimates and judgements

In applying the accounting policies, there is the requirement for judgements, estimates and assumptions to be made about the carrying amounts of some assets and liabilities. The estimates and assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

Judgement has been applied in determining not to value collections, libraries and databases for financial reporting purposes as outlined in note 2.7. Accounting policies where critical estimates have been made include property, plant and equipment, intangible assets, impairment of assets and liabilities and employee benefits.

2. Particular accounting policies

2.1 Revenue recognition

(a) Revenue from goods and services

Revenue earned from the supply of goods and services is measured at the fair value of consideration received. Revenue from services is recognised based on the percentage of work completed. Any amounts received in relation to work not yet commenced are recorded as revenue in advance.

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

(b) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement.

(c) Interest revenue

Interest revenue is accrued on a time basis at the effective interest rate.

(d) Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

2.2 Goods and services tax

The financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis.

2.3 Work in progress

Work in progress is valued based on the percentage of work completed, less amounts invoiced and provisions for unrecoverable amounts. Cost includes labour, direct costs and an allocation of overhead. The value of work in progress is regularly assessed with reference to contract values or estimated likely future income streams.

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. Assets have been depreciated on a straight-line basis at rates calculated to allocate the assets' cost over their estimated remaining useful lives. Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation methods are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is recognised in profit or loss.

The following useful lives are used in the calculation of depreciation:

Buildings and improvements	
– wooden construction	40 years
– concrete construction	50 years
– improvements	10–20 years
Plant, machinery and laboratory equipment	3–15 years
Furniture, fittings and office equipment	3–15 years
IT equipment	4–8 years
Vehicles	5 years

2.5 Intangible assets

Software, patents and capitalised development costs have a finite life and are included at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis at rates calculated to allocate the assets' cost over their estimated remaining useful lives.

The estimated useful life and amortisation method are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

The following useful lives are used in the calculation of amortisation:

Software	4–8 years
Patents	4–17 years
Capitalised development costs	4–8 years

Intangible assets under construction are capitalised at cost and are not amortised until the asset has been completed..

2.6 Impairment of tangible and intangible assets

The carrying amounts of tangible and intangible assets are reviewed at each balance date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, reference is made to the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, or value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss.

2.7 Collections, library and databases

The Company owns various collections, library resources and databases that are an integral part of the research work undertaken by the Company. These collections are highly specialised, and there is no reliable basis for establishing a valuation. They have therefore not been valued for financial reporting purposes. The two major collections are:

The National Paleontological Collection
The National Petrological Reference Collection

2.8 Financial assets

(a) Classification of financial assets

The Group holds loans and receivables. These are measured at cost less impairment or, in the case of trade receivables, reduced by an allowance for doubtful debts.

(b) Impairment of financial assets

Financial assets are assessed for indicators of impairment. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted.

When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance for doubtful debts. Changes in the carrying amount of doubtful debts are recognised in profit or loss.

2.9 Financial liabilities

(a) Classification of financial liabilities

Financial liabilities, excluding derivative financial instruments, are classified as other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost, with interest expense recognised on an effective interest basis.

2.10 Derivative financial instruments

The Group uses forward exchange contracts, to hedge its exposure to foreign exchange risk arising from its operations. The Group does not hold or issue these instruments for trading purposes.

Derivative financial instruments are recognised both initially and subsequently at fair value with reference to observable market inputs.

2.11 Foreign currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling on the date of the transaction. Monetary assets and liabilities at year end are converted to New Zealand dollars at the exchange rate ruling at balance date.

2.12 Employee benefits

Liabilities for wages and salaries, annual leave, long-service leave and retirement leave are recognised when it is probable that settlement will be required and they are capable of being reliably measured.

Employee benefits to be settled within 12 months are reported at the amount expected to be paid. Employee benefits not expected to be settled within 12 months are reported at the present value of the estimated future cash outflows.

Provisions for long-service leave and retirement leave depend on a number of assumptions such as the expected employment period of employees, salary levels and the timing of employees taking leave. When measuring employee benefit liabilities, risk-free discount rates provided by The Treasury are used as the appropriate discount rates, the salary increase factor is based on forecast information and employee pattern of leave has been determined after considering historical data.

2.13 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or loss for the period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted at balance date.

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

The carrying amount of deferred tax assets is reviewed and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised.

2.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer a significant portion of all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group has no leases that would be classified as finance leases.

Operating lease payments are recognised on a systematic basis representing the pattern in which economic benefits from the leased asset are consumed over the lease term.

2.15 Statement of Cash Flows

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. The following terms are used in the Statement of Cash Flows:

Operating activities are the principal revenue-producing activities and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the equity and borrowings of the Group.

2.16 New standards and interpretations not yet adopted

Standards and interpretations effective in the current period – There are no new standards and interpretations effective in the current period with a material impact.

Standards and interpretations approved but not yet in effect – New or revised standards and interpretations that have been approved but are not yet in effect have not been adopted for the year ended 30 June 2016. The adoption of these standards and interpretations is not expected to have a material recognition or measurement impact on the financial statements. These will be applied when they become mandatory.

3. Revenue

in thousands of New Zealand dollars	**2016**	2015
Provision of services	**81,075**	75,793
Sale of goods	**245**	912
Royalties, licence and maintenance revenue	**878**	1,127
Rental and other income	**45**	46
Total revenue	**82,243**	77,878
Commercial revenue was derived from:		
New Zealand	**10,369**	12,825
Overseas	**10,625**	7,723
Total commercial revenue	**20,994**	20,548

4. Expenses

Employee benefit expense includes employer contributions to KiwiSaver of $580,081 (2015: $549,974).
The following are included in operating expenses:

Auditor's remuneration – audit services	**77**	77
Movement within doubtful debt provision	**18**	(46)
Bad debts written off	**–**	73
Directors' fees	**176**	189
Foreign exchange loss/(gain)	**147**	(237)
Rent expense	**210**	183
Contract payments to other research organisations	**12,776**	9,489

5. Income tax expense

The income tax expense is determined as follows:

Reconciliation of income tax expense		
Profit before income tax	**1,673**	2,150
Tax at current rate of 28%	**468**	602
Non-deductible items in determining taxable profit	**38**	47
Non-assessable capital gain on sale of intellectual property	**-**	(293)
Tax on non-imputed intercompany dividend	**-**	42
Total tax expense	**506**	398
The taxation charge is represented by:		
Current tax	**687**	478
Deferred tax	**(181)**	(80)
Total tax expense	**506**	398

6. Share capital

Authorised and issued capital: 6,167,000 ordinary shares	**6,167**	6,167

All ordinary shares rank equally with respect to dividends and repayment of capital, and each carries the right to one vote at any annual meeting.

7. Property, plant and equipment

in thousands of New Zealand dollars	Land	Buildings and improvements	Plant and machinery	Laboratory equipment	IT equipment	Furniture, fittings and office equipment	Vehicles	Total
Cost								
Balance at 1 July 2014	2,527	17,563	3,374	27,054	5,785	3,162	1,136	60,601
Additions	-	1,684	379	1,806	553	153	219	4,794
Disposals	-	(53)	(142)	(134)	(183)	(188)	(127)	(827)
Balance at 30 June 2015	2,527	19,194	3,611	28,726	6,155	3,127	1,228	64,568
Additions	-	772	928	1,295	703	465	15	4,178
Disposals	-	(8)	(88)	(10)	(546)	(69)	(120)	(841)
Balance at 30 June 2016	**2,527**	**19,958**	**4,451**	**30,011**	**6,312**	**3,523**	**1,123**	**67,905**
Accumulated depreciation								
Balance at 1 July 2014	-	6,050	1,612	16,432	3,869	1,817	845	30,625
Disposals	-	(49)	(138)	(115)	(181)	(183)	(127)	(793)
Depreciation	-	1,113	266	1,719	727	288	111	4,224
Balance at 30 June 2015	-	7,114	1,740	18,036	4,415	1,922	829	34,056
Disposals	-	(6)	(88)	(7)	(541)	(62)	(120)	(824)
Depreciation	-	1,165	308	1,785	698	280	113	4,349
Balance at 30 June 2016	**-**	**8,273**	**1,960**	**19,814**	**4,572**	**2,140**	**822**	**37,581**
Net book value at 30 June 2015	2,527	12,080	1,871	10,690	1,740	1,205	399	30,512
Net book value at 30 June 2016	**2,527**	**11,685**	**2,491**	**10,197**	**1,740**	**1,383**	**301**	**30,324**

8. Intangible assets

in thousands of New Zealand dollars	Software	Patents	Capitalised development costs	Total
Cost				
Balance at 1 July 2014	10,432	1,076	755	12,263
Additions	930	150	–	1,080
Disposals	(386)	(151)	(57)	(594)
Balance at 30 June 2015	10,976	1,075	698	12,749
Additions	780	149	–	929
Disposals	(26)	–	(48)	(74)
Balance at 30 June 2016	**11,730**	**1,224**	**650**	**13,604**
Accumulated amortisation and impairment				
Balance at 1 July 2014	6,227	373	678	7,278
Disposals	(312)	(87)	(50)	(449)
Impairment	153	117	–	270
Amortisation	1,186	72	70	1,328
Balance at 30 June 2015	7,254	475	698	8,427
Disposals	(26)	–	–	(26)
Impairment	–	–	(48)	(48)
Amortisation	1,092	73	–	1,165
Balance at 30 June 2016	**8,320**	**548**	**650**	**9,518**
Net book value at 30 June 2015	3,722	600	–	4,322
Net book value at 30 June 2016	**3,410**	**676**	**–**	**4,086**

9. Trade receivables

in thousands of New Zealand dollars	2016	2015
Trade receivables	**5,902**	9,042
Allowance for doubtful debts	**(42)**	(24)
	5,860	9,018

The carrying value of receivables approximates their fair value. As at 30 June 2016, all overdue receivables have been assessed for impairment and appropriate provisions applied.

(a) Ageing profile of past due trade receivables at balance date

Past due 1–30 days	**466**	1,197
Past due 30–60 days	**112**	74
Past due over 61 days	**1,403**	1,387
	1,981	2,658

(b) Movement in the provision for doubtful debts

Balance at 1 July	**24**	70
Accounts written off during the year	**–**	(73)
Increase in allowance recognised in profit or loss	**38**	63
Reversal of impairment losses on receivables	**(20)**	(36)
	42	24

The credit quality of trade receivables that are neither past due nor impaired is considered sound.

10. Deferred tax liability

(a) Analysis of temporary differences

Deferred tax liabilities/(assets) arise from the following:

Property, plant and equipment	**1,500**	1,668
Intangible assets	**438**	472
Provisions	**(1,203)**	(1,228)
Doubtful debts	**(12)**	(7)
Capitalised relocation expenses	**(3)**	(4)
Deferred tax recognised at 30 June	**720**	901

(b) Movements in deferred tax

Balance at 1 July	**901**	981
Charged to income	**(208)**	(92)
Adjustments – prior year	**27**	12
	(181)	(80)
	720	901

Under section OB1(2)(d) of the Income Tax Act (2007), Crown Research Institutes are not required to maintain an imputation credit account.

11. Provisions

	Current		Non-current	
in thousands of New Zealand dollars	**2016**	2015	**2016**	2015
Annual leave	**2,263**	2,324	**512**	520
Long-service leave	**320**	267	**980**	903
Retirement leave	**109**	109	**285**	323
Total leave provisions	**2,692**	2,700	**1,777**	1,746

12. Trade and other payables

	2016	2015
Trade payables	**3,882**	5,329
Accrued expenses	**3,230**	2,857
Other payables	**429**	532
Total payables	**7,541**	8,718

Trade and other payables are non-interest bearing and are normally settled on the 20th of the month following receipt of invoice.
The carrying value of creditors and other payables approximates their fair value.

13. Provision for dividend

On 10 August 2015, a dividend of $250,000 was paid to holders of fully paid ordinary shares in respect of the 2015 financial year.
On 22 June 2016, the Directors approved a dividend of $250,000 in respect of the current financial year, which was paid to shareholders on 15 August 2016.

14. Reconciliation of profit after tax to net cash flows from operating activities

in thousands of New Zealand dollars	2016	2015
Profit after tax	**1,167**	1,752
Add/(less) items classified as investing activities:		
Net gain on disposal of property, plant and equipment	**(19)**	(15)
Impairment of intangible assets	**–**	270
Gain on sale of intellectual property	**–**	(1,120)
	(19)	(865)
Adjust non-cash items:		
Depreciation	**4,349**	4,224
Amortisation	**1,165**	1,328
Bad and doubtful accounts	**18**	25
Net unrealised exchange loss/(gain)	**16**	(143)
Increase/(decrease) in provision for income tax	**428**	(463)
Decrease in deferred tax	**(181)**	(80)
Increase/(decrease) in non-current provisions	**31**	(394)
	5,826	4,497
Add/(less) movements in working capital items:		
Decrease/(increase) in accounts receivable and prepayments	**2,975**	(1,176)
(Decrease)/increase in payables, current provisions and revenue in advance	**(1,752)**	153
Change in trade payables relating to investing activities	**(354)**	–
Decrease/(increase) in work in progress	**659**	(360)
	1,528	(1,383)
Net cash flows from operating activities	**8,502**	4,001

15. Related-party transactions

The total remuneration paid to directors and key management personnel during the year was as follows:

Short-term benefits	**2,225**	1,755

16. Financial instruments

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital and retained earnings.

The Group is not subject to any externally imposed capital requirements.

(b) Categories of financial instruments

in thousands of New Zealand dollars	**2016**	2015
Financial assets – loans and receivables		
Cash and cash equivalents	**10,047**	6,546
Trade and other receivables	**5,860**	9,018
Total financial assets	**15,907**	15,564
Investments	**30**	30
Financial liabilities measured at amortised cost		
Trade and other payables	**(7,541)**	(8,718)

(c) Financial risk management objectives

The Group monitors and manages the financial risks relating to its operations through daily monitoring of its cash position and regular Board reporting.

The Group seeks to minimise the effects of financial risks by following prudent treasury management policies and delegations of authority.

(d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.
There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(e) Currency risk

The Group undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy limits using forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
in thousands of New Zealand dollars	**2016**	2015	**2016**	2015
Australian dollar	**(56)**	(504)	**52**	226
Canadian dollar	**(6)**	–	**–**	–
Euro	**(9)**	(1)	**10**	23
GBP sterling	**(7)**	(35)	**–**	–
Japanese yen	**–**	–	**3**	–
Omani rial	**–**	–	**1,548**	–
US dollar	**(570)**	(649)	**1,228**	3,215
	(648)	(1,189)	**2,841**	3,464

The Group has a policy of not holding large amounts of foreign currency denominated monetary assets.

(f) Sensitivity

As at 30 June 2016, if the New Zealand dollar (NZD) had strengthened by 5% against foreign currencies, with all other variables held constant, the profit for the year for the Group would have been decreased by $105,000 (2015: $79,000) as follows:

in thousands of New Zealand dollars	**2016**	2015
Australian dollar	**–**	18
Canadian dollar	**–**	
Euro	**–**	(1)
GBP sterling	**–**	2
Japanese yen	**–**	–
Omani rial	**(74)**	–
US dollar	**(31)**	(98)
	(105)	(79)

A 5% weakening of the NZD would have increased the profit for the year for the Group by $219,000 (2015: $149,000) as follows:

Australian dollar	**–**	(9)
Canadian dollar	**(1)**	
Euro	**–**	1
GBP sterling	**(1)**	(2)
Japanese yen	**–**	–
Omani rial	**155**	–
US dollar	**66**	159
	219	149

This movement is attributable to foreign exchange gains/losses on translation of foreign currency denominated receivables, payables and cash and cash equivalent balances.

(g) Interest rate risk management

The Group also operates a call account and has short-term deposits on which interest is earned. Where possible, the Group manages exposures to interest rate fluctuations through prudent management of its treasury operations.

In managing interest rate risks, the Group aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in interest rates will have an impact on profit.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by $46,000 (2015: $33,000).

(h) Credit risk management

The financial instruments that expose the Group to credit risk are principally bank balances, short-term investments and accounts receivable. The Group monitors credit risk on an ongoing basis.

Bank balances and short-term investments are held with New Zealand registered banks in accordance with the Group's treasury policy.

No collateral is held by the Group in respect of bank balances, short-term investments or accounts receivable. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Balance Sheet.

(i) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, cash deposits and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities, all of which are of a short-term nature.

(j) Fair value of financial instruments

At 30 June 2016, the Group had no forward currency contracts in place (2015: Canadian dollars).

in thousands of dollars	Foreign currency		Contract value (NZD)		Fair value (NZD)	
Outstanding contracts	**2016**	2015	**2016**	2015	**2016**	2015
Less than three months	**–**	131	**–**	157	**–**	–
More than three months	**–**	–	**–**	–	**–**	–
	–	131	**–**	157	**–**	–

17. Commitments

(a) Non-cancellable operating lease commitments

in thousands of New Zealand dollars	**2016**	2015
Within one year	**170**	147
Between one and five years	**78**	166
Over five years	**–**	–
	248	313

(b) Capital commitments

Capital commitments	**1,321**	2,791

18. Contingent liabilities

The Group has no contingent liabilities (2015: $nil).

19. Events after the balance date

There were no significant events after the balance date (2015: none).

STATEMENT OF RESPONSIBILITY

The Board is responsible for the preparation of the annual financial statements and the judgements used therein.

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

In the opinion of the Board, the annual financial statements for the financial year fairly reflect the financial position and operations of the Group.

For and on behalf of the Board.

Dr Nicola Crauford
Chairman

Sarah Haydon
Deputy Chairman

24 August 2016
Date of approval

To the readers of the Institute of Geological and Nuclear Sciences Limited Group's financial statements for the year ended 30 June 2016

The Auditor-General is the auditor of Institute of Geological and Nuclear Sciences Limited Group (the Group). The Auditor-General has appointed me, Trevor Deed, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Group consisting of Institute of Geological and Nuclear Sciences Limited and its subsidiaries and other controlled entities, on her behalf.

Opinion

We have audited the financial statements of the Group on pages 60 to 75 that comprise the consolidated Balance Sheet as at 30 June 2016, the consolidated Statement of Comprehensive Income, consolidated Statement of Changes in Equity and consolidated Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2016; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards, International Financial Reporting Standards.

Our audit was completed on 24 August 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand and New Zealand equivalents to International Financial Reporting Standards, International Financial Reporting Standards.

The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992.

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Group.

Trevor Deed
Deloitte
On behalf of the Auditor-General
Wellington, New Zealand

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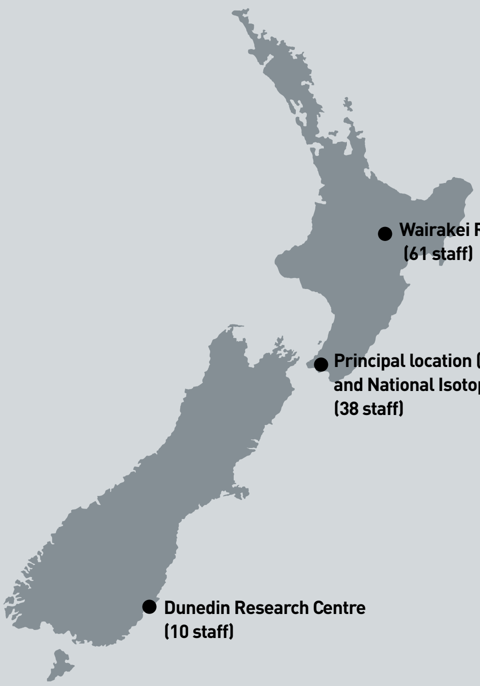
Our office locations and staffing



Directors

Dr Nicola Crauford
(Chairman)

Sarah Haydon
(Deputy Chairman)

Chris Bush

Belinda Vernon

Prof Steve Weaver

Executive

Acting Chief Executive
Dr Neal Wai Poi

Director
External Relations
and Commercialisation
Dr Neal Wai Poi

Director
Natural Hazards
Dr Gill Jolly

Director
Geological Resources
Dr Kevin Faure

Director
Environment and Materials
Dr Chris Daughney

Director
Corporate Services
Graham Clarke

Senior Managers

General Manager
Business Development
Rob Johnston

General Manager
Human Resources
Keryn Bilderbeck

General Manager
Research
Dr Ian Graham

Legal Counsel
Dr Anna Jellie

General Manager
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ANZ

Auditor

Trevor Deed
Deloitte
On behalf of the
Auditor-General

Solicitors

Minter Ellison Rudd Watts

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www.geonet.org.nz
www.globeclaritas.com

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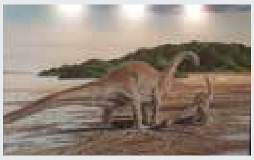
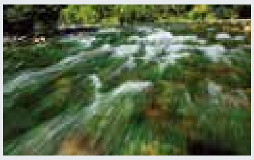
PHOTOGRAPH ACKNOWLEDGEMENTS


P1 CBD damage in the February 2011 Christchurch earthquake – Margaret Low, GNS Science


P1 Dinosaur Footprints Exhibition – Margaret Low, GNS Science


P1 Wellington Regional Council air monitoring station in the capital – Kate Whitley, GNS Science


P1 Pohangina River, Palmerston North – Manoj Kalathara, GNS Science

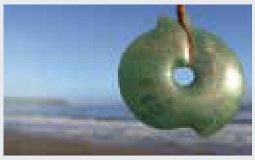

P3 Ruptured irrigation dam in Vietnam – Ngoc Minh


P3 Indonesian Workshop – Ken George

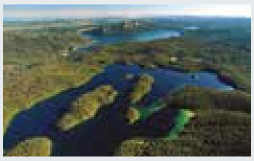

P3 Cape Hallett – Rebecca Roper-Gee, Antarctica NZ


P3 Southern Negros Geothermal Field, The Philippines – Brian Carey, GNS Science

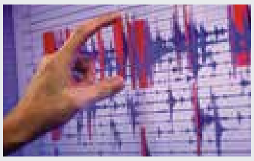

P12 Muriwai Marae Tamanuhiri Tutu PoroPoro Trust

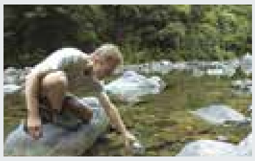

P13 A pendant carved from aotea stone by Tutuko Wallace – Simon Cox


P13 Poverty Bay Flats, Gisborne – Lloyd Homer, GNS Science


P13 Lake Wakaremoana and Waikareiti – Dougal Townsend, GNS Science


P14 Quake strengthening, Wellington – Gerry le Roux, ScienceLens

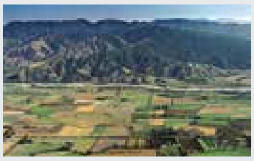

P15 Rich aftershock sequence on GeoNet screen – Gerry le Roux, ScienceLens


P18 Uwe Morgenstern sampling water at Kaitoke – Kate Whitley, GNS Science


P19 Drilling barge, Lake Ohau – Chris Moy, Otago University

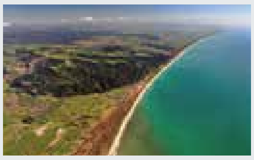

P20 Sollas Glacier, Antarctica – Sarah Milicich, GNS Science


P21 Domestic air circulation – Margaret Low, GNS Science

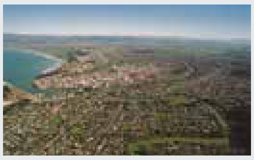

P22 Wairau Plains, Marlborough – Lloyd Homer, GNS Science

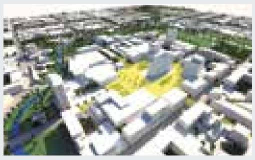

P23 Lahar Path, Mt Ruapehu – Graham Leonard, GNS Science


P24 Thirsty Ridge, South Westland – Ken Gledhill, GNS Science


P25 Matata and BOP coastline – Lloyd Homer, GNS Science


P26 Alpine Fault, Westland – Lloyd Homer, GNS Science

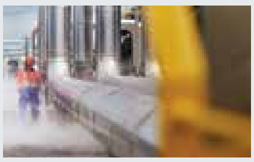

P27 Gisborne CIty – Lloyd Homer, GNS Science


P28 Christchurch CBD concept design – CERA

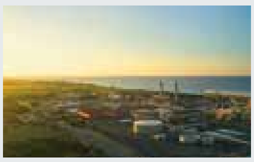

P29 Auckland Harbour and skyline – Chris McLennan

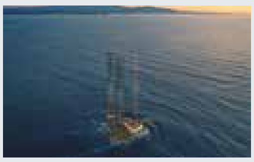

P30 Indonesian Workshop – Ken George


P31 Sampling steam at Te Huka Power Station – Manoj Kalathara, GNS Science


P32 Ngatamariki Power Station – Chris Sisarich


P33 Ngatamariki Power Station – Chris Sisarich


P34 Kupe Gas Processing Plant, Taranaki – Chris Sisarich


P35 The Kupe gas field, Taranaki – Chris Sisarich


P36 Airborne geophysical survey – Thomson Aviation


P37 Tailings impoundment Waihi gold mine – Kit Wilson/OceanaGold


P38 Jérôme Leveneur in Ion Beam Lab – Margaret Low, GNS Science

P39 Map of lava and ash flows in South Auckland – Margaret Low, GNS Science

P40 Geologist Katie Jones with 3D graphic of South Auckland geology – Margaret Low, GNS Science

P41 The IODP scientific drill ship JOIDES Resolution – William Crawford, IODP/TAMU

P42 Geologists Will Ries and Rob Langridge with fault map – Margaret Low, GNS Science

P43 Artesian Well, Canterbury – Lloyd Homer, GNS Science

P45 GNS Science, Avalon Office – Margaret Low, GNS Science

P51 Board of Directors portraits – Jeff Brass

P62 Executive Team portraits – Jeff Brass

P79 Dr Vivian Fang – Margaret Low, GNS Science