



Half-yearly Report

for the six months ended 31 December 2009



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Science underpinning Health, Justice and Biosecurity in New Zealand

ESR provides science advice and services to government agencies, local authorities and the private sector

Report to Shareholders

The Directors and Management of the Institute of Environmental Science and Research Ltd (ESR) are pleased to present the half-yearly report for the six months ended December 2009.

Financial result

The financial performance for the first half of the year reflects the tight fiscal situation with revenue \$3.3m under budget. However expenses have been managed to also be under budget. The variances for both revenue and expenditure at December are a mix of timing and permanent differences. It is expected that the performance over the second half-year will improve, despite the revenue challenge ESR faces due to cutbacks by government clients.

Full year outlook

The Institute expects to achieve its return on equity target of 8%. Cost constraint will be a major part in achieving financial targets and the key factor is attaining sufficient revenue from clients, mainly government, to make a considerably improved second half-year return.

Non-financial performance measures

Contracts

ESR successfully negotiated a three year contract with the New Zealand Food Safety Authority which includes the right of renewal, and a 2+2+2 year contract with the Ministry of Health. A separate contract with the MoH for immunisation vaccine storage and distribution was also signed. Agreement was also made with the New Zealand Police for ESR to be their sole source forensic provider.

Strategic initiatives

To diversify ESR's revenue base four strategic initiatives have been agreed between the Board and ESR's senior management. These initiatives are in the areas of acquisition, research, international sales and securing additional New Zealand clients.

National DNA Databank milestone reached

The national DNA Databank, administered by ESR, reached the significant milestone of more than 100,000 individual profiles loaded. The overall success rate in DNA matching in New Zealand is world leading with 65% of all unsolved cases loaded to the crime sample database linked to individuals and more than 30% linked to another crime.

Research funding

ESR secured funding from research funders for three projects.

The Biosolids team are leading a four year, \$1.83m funded research programme being undertaken in collaboration with a range of other research organisations. The Water Management programme gained funding for three years to study virus removal in wastewater and an ESR research scientist received a Fast-Start grant from the Marsden fund for a meningococcal research project.

Ongoing response to the flu pandemic

ESR continued to provide New Zealand Health Agencies with comprehensive laboratory and surveillance response to the influenza pandemic. The GP sentinel surveillance system, which forms a cornerstone for seasonal flu monitoring, was extended to continue throughout the summer providing ongoing surveillance data for health authorities. Sentinel surveillance usually only runs from May–October each year.

Tamiflu resistance monitoring

Using capability funding ESR has continued to monitor tamiflu resistance in seasonal influenza strains and the new pandemic strain.

Seroprevalence study for MOH

A study investigating the level of immunity New Zealanders have to pandemic influenza (H1N1) was started on behalf of the Ministry of Health. Blood samples from 2,500 people will be analysed to see who has been exposed to pandemic influenza and developed immunity to it. This information will be used

to establish how many people are still at risk of contracting the illness so the health sector can plan more effectively for a possible second pandemic wave.

White powder threats identified

The Microbial Chemical Forensics team provided rapid preliminary results for a white powder threat at the Police fines office in central Wellington. The powder was found to be non-toxic. Identifying substances is vital for scene management, and the early identification of an innocuous material minimises disruption to the public.

ESR undertakes analysis for a number of white powder and other similar threats every year.

Client survey

An online survey of 1600 work-place drug testing clients was undertaken to investigate preferences for workplace drug testing.

Food collaboration with China

ESR and the Chinese Cereals and Oils Association signed a memorandum of understanding to collaborate on food safety research focusing on detecting hazards in the food chain. The collaboration is a result of ESR's involvement in several European Community funded food safety projects.

Extended reporting of STIs

Reporting of sexually transmitted infection (STI) data was significantly extended. As STIs are non-notifiable, data capture is reliant on voluntary reporting from laboratories and clinics. ESR is now able to publish data for chlamydia and gonorrhoea for 16 out of the 21 DHBs in New Zealand. Previously reports had only been able to provide data for three regions covering six District Health Boards.

International forensic survey

ESR Forensic Programme was invited to participate in an international survey by Applied Biosystems on how volume crime samples are handled in different jurisdictions.

Statement of Responsibility

We certify that the company has operated in accordance with the Crown Research Institutes Act 1993. The company has also complied with all statutory environmental obligations.

We acknowledge responsibility for the preparation of these financial statements and for the judgements used therein.

Internal control procedures are considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

In our opinion these financial statements fairly and accurately reflect the financial position and operations of the Institute of Environmental Science and Research Ltd for the half year ended 31 December 2009.

Dr Susan Macken (Chair)

Dr Garth Carnaby (Deputy Chair)

Dr John Hay (Chief Executive)

Research Application Measures

	6 Months Ended 31 December 2009 Actual	Year Ended 30 June 2010 Plan	Year Ended 30 June 2009 Actual	Year Ended 30 June 2008 Actual
Benefit to New Zealand				
1. Value of public good services provided in New Zealand	21.5	51	46	43
2. Invitations or elections to serve on national or international scientific agencies, boards or advisory committees during the current year	19	55	42	50
Science Output				
1. Papers accepted for publication in international, externally refereed journals, series or books	46	100	77	80
2. Papers in local, internally or editor refereed journals, series or books	3	16	10	15
3. Invited keynote and plenary presentations – costs paid in full or part	14	35	25	29
4. Conference papers and abstracts – presentations on technical information and research results	51	145	153	119
5. Research monographs or books	–	1	1	3
6. Scientific and technical reports – commissioned reports to users	45	140	127	140
7. Submissions for R&D funding	27	47	38	50
Application and Promotion of Science				
1. Staff involvement in conferences, workshops, hui, seminars and training sessions				
• No. of events	131	400	331	318
• No. of attendees	267	700	622	631
2. Availability and use of ESR Reference Culture Collection	925	1750	1839	1831
3. Number of Tech NZ contracts	–	0	0	–
4. Support for NZ science system – number of bids to funding agencies refereed and papers for scientific journals refereed, number of MSc or PhD students supervised, number of MSc and PhD theses externally examined	96	200	276	397

	6 Months Ended 31 December 2009 Actual	Year Ended 30 June 2010 Plan	Year Ended 30 June 2009 Actual	Year Ended 30 June 2008 Actual
5. Number of science-promoting media events	77	150	184	183
6. Science-related talks to schools, community groups and service clubs	19	50	46	55
Good Employer				
1. Staff turnover (% of total staff excluding redundancies and fixed-term contracts)	10.5	8-12	9.5	8.8
2. Number of work days lost through workplace accidents (as a % of total working days)	<0.1	<0.1	<0.1	<0.1
3. Staff composition groups (No. of FTEs)				
• Research	253	273	264	264
• Research Support	49	53	51	53
• Other	57	61	59	56
Total FTEs	359	387	374	373

Key Financial Performance Measures

	6 Months Ended 31 December 2009 Actual	Year Ended 30 June 2010 Plan	Year Ended 30 June 2009 Actual	Year Ended 30 June 2008 Actual
Revenue, \$m	25.2	57.0	55.2	51.1
EBIT* Margin, %	3.4	6.9	7.4	8.0
Return (NPAT**) on equity, %	4.1	8.0	9.0	10.1
Return (EBIT*) on assets, %	3.7	8.6	9.0	10.1
Acid Test, ratio	1.7	1.0	1.2	1.1
Equity Ratio, %	72.9	73.7	68.7	70.8
Gearing, %	1.1	–	0.9	0.8
Interest cover	–	–	–	–
Annualised Revenue per Full Time Equivalent, \$000 (including Casual staff)	142.0	147.2	147.5	137.0

* Earnings (Annualised Surplus) before Taxation and Interest

** Net Profit (Annualised Surplus) After Taxation

Statement of Comprehensive Income

For the six months ended 31 December 2009

	Group Unaudited 6 Months Ended 31 December 2009 \$'000s	Group Audited 12 Months Ended 30 June 2009 \$'000s	Group Unaudited 6 Months Ended 31 December 2008 \$'000s
Operating Revenue			
Revenue from Rendering of Services	25,164	55,162	27,282
	25,164	55,162	27,282
Operating Expenses			
Scientific Materials and Consumables Used	(2,707)	(5,891)	(2,923)
Employee Benefit Expense	(14,178)	(28,390)	(14,102)
Depreciation and Amortisation Expense	(2,339)	(4,597)	(2,099)
Other Expenses	(5,088)	(12,191)	(5,553)
	(24,312)	(51,069)	(24,677)
Operating Profit	852	4,093	2,605
Finance Income - Interest Income	141	226	142
Finance Expense	(13)	–	(9)
Net Finance Income / (Expense)	128	226	133
Profit before Income Tax Expense	980	4,319	2,738
Income Tax Expense	(294)	(1,490)	(822)
Profit for the Period Attributable to the Institute's Shareholder	686	2,829	1,916
Other Comprehensive Income	–	–	–
Total Comprehensive Income for the Period Attributable to the Institute's Shareholder	686	2,829	1,916

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

For the six months ended 31 December 2009

	Group Unaudited 6 Months Ended 31 December 2009 \$'000s	Group Audited 12 Months Ended 30 June 2009 \$'000s	Group Unaudited 6 Months Ended 31 December 2008 \$'000s
Equity at the Beginning of the Period	32,776	30,053	30,053
Profit for the Period	686	2,829	1,916
Other Comprehensive income	–	–	–
Total Comprehensive Income	686	2,829	1,916
Dividend	–	(106)	–
Equity at the End of the Period	33,462	32,776	31,969

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2009

	Group Unaudited 31 December 2009 \$'000s	Group Audited 30 June 2009 \$'000s	Group Unaudited 31 December 2008 \$'000s
Non-current Assets			
Property, Plant and Equipment	31,277	31,254	31,041
Intangible Assets	1,427	1,760	1,472
	32,704	33,014	32,513
Current Assets			
Cash and Cash Equivalents	3,124	3,355	1,380
Trade and Other Receivables	5,949	10,907	9,034
Income Tax Recievable	126	–	316
Inventories	908	820	1,000
	10,107	15,082	11,730
Current Liabilities			
Trade and Other Payables	5,358	11,089	8,916
Employee Benefits	2,217	2,141	2,052
Finance Lease Liabilities	199	158	90
Provisions	77	181	–
Income Tax Payable	–	229	–
	7,851	13,798	11,058
Net Current Assets / (Liabilities)	2,256	1,284	672
Non-current Liabilities			
Employee Benefits	750	817	841
Provisions	213	213	–
Finance Lease Liabilities	177	134	139
Deferred Taxation	358	358	236
	1,498	1,522	1,216
Net Assets	33,462	32,776	31,969
Equity			
Share Capital	8,494	8,494	8,494
Retained Earnings	24,968	24,282	23,475
Total Equity	33,462	32,776	31,969

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For the six months ended 31 December 2009

	Note	Group Unaudited 6 Months Ended 31 December 2009 \$'000s	Group Audited 12 Months Ended 30 June 2009 \$'000s	Group Unaudited 6 Months Ended 31 December 2008 \$'000s
Cash Flows From / (Used in) Operating Activities				
<i>Cash was provided from:</i>				
Customers		25,715	55,203	27,341
Interest Received		141	241	157
		25,856	55,444	27,498
<i>Cash was applied to:</i>				
Suppliers and Employees		(23,182)	(46,494)	(23,559)
Interest Paid		(13)	–	(9)
Income Tax Paid		(649)	(471)	(471)
		(23,844)	(46,965)	(24,039)
Net Cash Inflow from Operating Activities	2	2,012	8,479	3,459
Cash Flows from / (Used in) Investing Activities				
<i>Cash was applied to:</i>				
Purchase of Property, Plant and Equipment		(1,868)	(4,639)	(2,764)
Purchase of Intangible Assets		(168)	(1,393)	(454)
		(2,036)	(6,032)	(3,218)
Net Cash Outflow from Investing Activities		(2,036)	(6,032)	(3,218)
Cash Flows from / (Used in) Financing Activities				
<i>Cash was provided from / (applied to):</i>				
Dividends Paid		(106)	(106)	–
Repayment of Finance Lease Liabilities		(101)	(252)	(127)
Net Cash (Outflow) / Inflow from Financing Activities		(207)	(358)	(127)
Net (Decrease) / Increase in Cash Held		(231)	2,089	114
Cash and Cash Equivalents at the Beginning of the Period		3,355	1,266	1,266
Cash and Cash Equivalents at the End of the Period		3,124	3,355	1,380

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

a) Reporting Entity

The financial statements of the Institute of Environmental Science and Research Limited ("ESR") have been prepared in accordance with the requirements of the Public Finance Act 1989, the Crown Research Institutes Act 1992, the Companies Act 1993 and the Financial Reporting Act 1993.

ESR provides specialist scientific solutions, including working with the New Zealand justice and health sectors to promote the protection of people and their environment.

ESR is a Crown Entity incorporated and domiciled in New Zealand. The address of its registered office is 34 Kenepuru Drive, Porirua 5240.

The reporting period for these interim financial statements is the six months ended 31 December 2009.

b) Basis of Preparation

These unaudited, consolidated, condensed interim financial statements are prepared on the basis of historical cost with the exception of certain items for which accounting policies are stated below.

These unaudited, consolidated, condensed interim financial statements should be read in conjunction with the financial statements and related notes included in ESR's Annual Report for the year ended 30 June 2009 (2009 Annual Report).

The accounting policies set out in the 2009 Annual Report have been applied consistently to all the periods in these interim financial statements. There have been no changes in accounting policies from those applied in ESR's 2009 Annual Report.

The financial statements are parent and group financial statements. The three subsidiaries of ESR are dormant non-trading entities; consequently there is no difference between the financial statements of the Group and those of the Parent.

c) Statement of Compliance

These unaudited, consolidated, condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and with New Zealand equivalent to International Accounting Standard (NZIAS) 34 Interim Financial Reporting and other applicable financial reporting standards, as appropriate for profit-oriented entities.

d) Revenue

i) Sales of Goods and Services

Revenue is earned by ESR in exchange for the provision of outputs (services) to third parties. Revenue from the supply of services is measured at the fair value of consideration received. Revenue from the supply of services is recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

ii) Interest Income

Interest income is recognised in the Income Statement on a time proportion basis, using the effective interest rate method.

2. Reconciliation of Profit after Taxation to Cash Flows from Operating Activities

	Group Unaudited 6 Months Ended 31 December 2009 \$'000s	Group Audited 12 Months Ended 30 June 2009 \$'000s	Group Unaudited 6 Months Ended 31 December 2008 \$'000s
Profit for the Year	686	2,829	1,916
Non-cash items:			
Depreciation and Amortisation	2,339	4,597	2,099
Increase / (Decrease) in Deferred Taxation Liability	–	122	–
(Decrease) / Increase in Financial Liabilities	185	–	196
	2,524	4,719	2,295
Impact of Changes in Investing Activities:			
Loss / (Gain) on Sale of Assets	7	4	1
	7	4	1
Changes in Working Capital:			
Decrease / (Increase) in Trade and Other Receivables	4,959	(1,532)	341
(Increase) / Decrease in Income Tax Receivable	(356)	896	351
(Increase) / Decrease in Inventories	(88)	(40)	(220)
(Decrease) / Increase in Provisions	(104)	394	–
Increase / (Decrease) in Employment Benefits	9	500	239
(Decrease) / Increase in Trade and Other Payables	(5,625)	709	(1,464)
	(1,205)	927	(753)
Net Cash Inflow / (Outflow) from Operating Activities	2,012	8,479	3,459

The accompanying notes form an integral part of these financial statements.

3. Related Party Transactions

ESR is a wholly owned entity of the Crown. ESR enters into transactions with other Crown entities and government departments on an arm's length basis. Those transactions that occur within a normal supplier or client relationship, on terms and conditions no more or less favourable than those which it is reasonable to expect ESR would have adopted if dealing with that entity at arm's length in the same circumstance, are not disclosed.

Related parties include the subsidiary and associate entities. There have been no transactions with these related parties.

4. Capital Commitments

The following amounts have been committed to by ESR, but have not been recognised in the financial statements:

	Group Unaudited 6 Months Ended 31 December 2009 \$'000s	Group Audited 12 Months Ended 30 June 2009 \$'000s	Group Unaudited 6 Months Ended 31 December 2008 \$'000s
Property, Plant and Equipment	289	592	737
Intangibles - Software	229	–	188
Total Capital Commitments	518	592	925

5. Events Subsequent to Balance Date

The directors are not aware of any matter or circumstance since the end of the period that has significantly affected, or may significantly affect, the operation of the Institute.

Directory

Directors

Dr Susan Macken (Chair)
Dr Garth Carnaby (Deputy Chair)
Professor Stephen Chambers
Dr Judith Johnston
Elizabeth Hickey
Ross Peat
Dr Mere Roberts

Chief Executive Officer

Dr John Hay

Senior Managers

Dr Keith Bedford General Manager Forensic
Terry McCaul General Manager Human Resources
Leo Morta Chief Information Officer
Dr Valerie Orchard General Manager Science and Research
Peter O'Shea General Manager Finance
David Talbot General Manager Business Development and Marketing
Dr Fiona Thomson-Carter General Manager Environmental Health

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Auditor

Chris Barber of PricewaterhouseCoopers on behalf of the Auditor-General

Banker

The National Bank of New Zealand Limited

Solicitor

Kensington Swan

