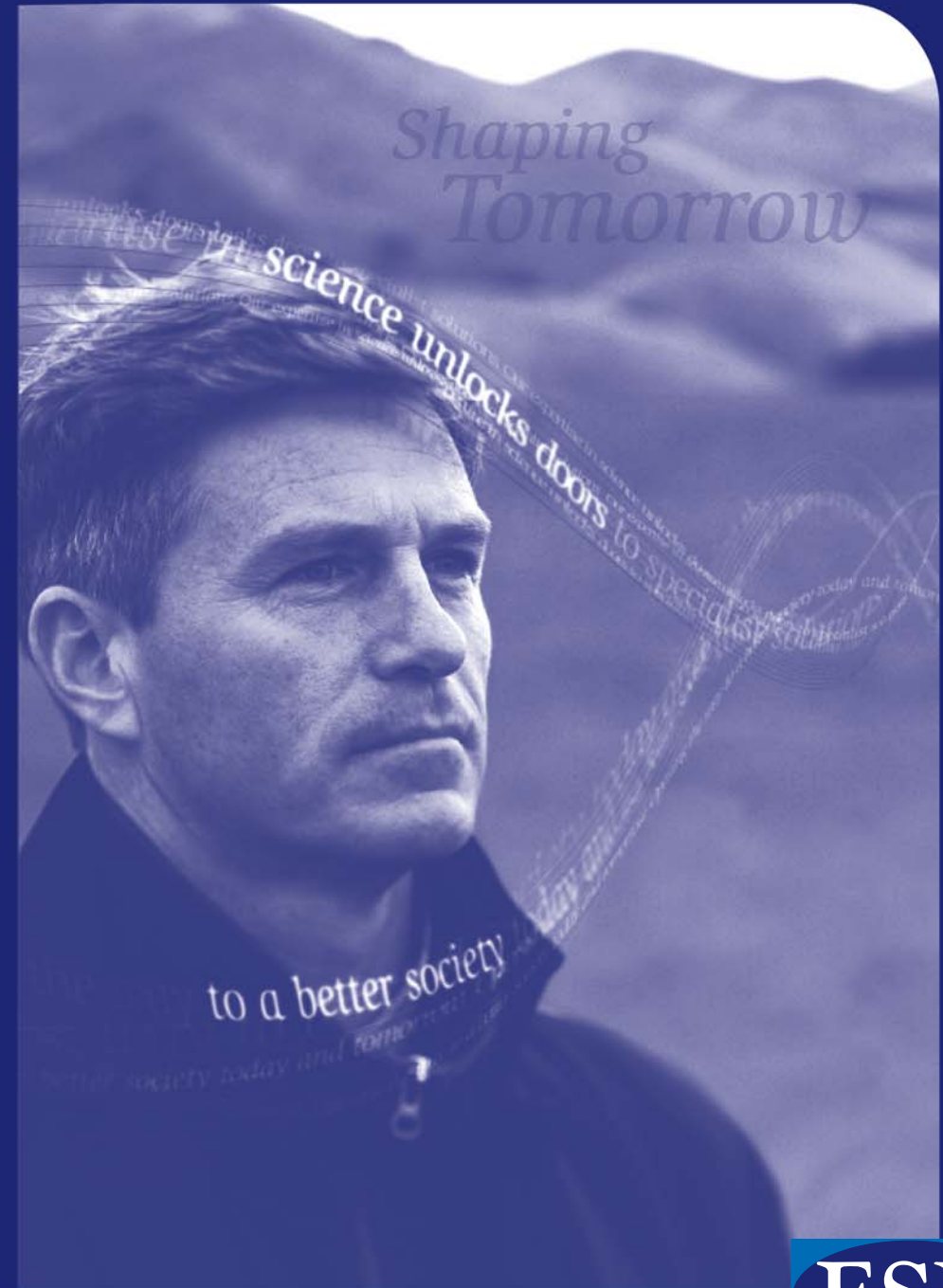


Half-yearly Report

for the six months ended 31 December 2003



www.esr.cri.nz

manaaki tangata taiao hoki
protecting people and their environment through science

Institute of Environmental Science & Research Limited



Directory

Directors

Ian Wilson (Chairman)
 Professor Kathryn Crosier
 Dr Roderick Ellis-Pegler
 James Koh
 Sharon Opai
 Murray Bain

Chief Executive Officer

Dr John Hay

Senior Managers

Wayne Chisnall	General Manager, Forensic
Jacob de Feijter	Manager, Science Information Management Services
Jocelyn Grainger	Strategic Manager, Human Resources
Dr Valerie Orchard	Strategic Manager, Science & Research
Peter O'Shea	General Manager, Finance
Dr Bill Swallow	General Manager, Environmental Health
David Talbot	Manager, Business Development and Marketing

Registered Office

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Auditor

Karen Shires of PricewaterhouseCoopers on behalf of the Auditor-General

Bankers

The National Bank of New Zealand Limited

Solicitors

Kensington Swan

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Statement of Responsibility

We certify that the company has operated in accordance with the Crown Research Institutes Act 1992 and Companies 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 & Research Limited for the half year ended December 2003.



Ian Wilson, Chairman



Murray Bain, Director



Dr John Hay, Chief Executive Officer

(vi) Taxation

The taxation charge against profit for the period is the estimated liability in respect of that profit after allowance for permanent differences and timing differences not expected to reverse in the foreseeable future.

ESR accounts for deferred taxation using the partial basis of the liability method. Future tax benefits attributable to tax losses or timing differences are only recognised when there is virtual certainty of realisation.

(vii) Statement of Cash Flows

a) Cash means coins and notes, demand deposits and other highly liquid investments in which ESR has invested as part of its day-to-day cash management.

b) Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and investments.

c) Financing activities are those activities which result in changes in the size and composition of the capital structure of ESR.

d) Operating activities include all other transactions and events.

(viii) Translation of Foreign Currency Transactions

Transactions in foreign currency are translated to New Zealand dollars at the rate applying on settlement. Foreign currency assets and liabilities are translated at the rate applying at balance date. Where foreign exchange risk at balance date is covered by forward contracts, the translation is carried out at the applicable forward rate.

(ix) Research

A portion of ESR's normal operations relates to research activities. Such operating activities are externally funded and are accounted for as ordinary operating expenses and revenues as the activities are performed. Other research costs are expensed in the period in which they arise.

(x) Goods and Services Tax

Items in the Statements of Financial Performance and Cash Flows are disclosed net of Goods and Services Tax. All items in the Statement of Financial Position are stated net of GST with the exception of receivables and payables which include GST invoiced.

(xi) Financial Instruments

ESR is a party to financial instruments as part of its normal operations. Revenue and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

Credit Risk:

The financial instruments which expose ESR to credit risk are principally bank balances, short-term investments and accounts receivable. ESR monitors credit risk on an ongoing basis. Bank balances and short-term investments are held with New Zealand registered banks in accordance with ESR's Treasury Policy. A provision for doubtful debts is maintained in respect of accounts receivable and this is reassessed on a regular basis. No collateral is held by ESR in respect of bank balances, short-term investments or accounts receivable.

Currency Risk:

ESR manages its exposure to currency risk through the use of forward exchange contracts.

Interest Rate Risk:

The interest rate risk on funds held is managed through the use of short-term investments in accordance with ESR's Treasury Policy.

(xii) Changes in Accounting Policies

There have been no changes in accounting policies in the period. The policies set out above have been applied on a basis consistent with previous periods.

Notes to the Financial Statements

- 1 THESE ACCOUNTS ARE UNAUDITED
- 2 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The reporting entity to which these financial statements relate is the Institute of Environmental Science & Research Limited (ESR), along with the consolidated financial statements for the group comprising ESR, its subsidiaries and associates.

The financial statements have been prepared in accordance with the Crown Research Institutes Act 1992, the Companies Act 1993, and the Financial Reporting Act 1993.

MEASUREMENT BASE

The financial statements are prepared on the basis of historical costs with the exception of certain items for which accounting policies are stated below.

ACCOUNTING POLICIES

(i) Operating Revenue

Operating revenue shown in the Statement of Financial Performance comprises the amounts received and receivable by ESR for services supplied to customers in the ordinary course of business.

(ii) Fixed Assets

The cost of fixed assets includes all directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use.

(iii) Depreciation

Depreciation is charged on a straight line basis so as to write off the cost of the fixed assets over their expected economic lives.

Major economic lives are:

Freehold Buildings	25 - 50 years
Leasehold Improvements	10 years
Scientific Equipment	3 - 7 years
Other Plant and Equipment	3 - 10 years
Vehicles	5 years
IT Equipment and Software	3 years

Gains and losses on disposal are taken into account in determining the operating result.

(iv) Accounts Receivable

Accounts receivable are stated at their estimated realisable value. An estimate of the value of doubtful debts is made based on a review of debts at year end. Bad debts are written off in the period in which they are identified.

(v) Stock and Work in Progress

Stocks of consumables and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Work in progress includes a portion of the costs appropriate to the stage of completion reached.

Report to Shareholders

The Directors and Management of the Institute of Environmental Science & Research Limited (ESR) are pleased to present the half-yearly report of the Institute for the six months ended 31 December 2003.

FINANCIAL RESULT

The operating surplus before tax for the period to the end of December was \$1,790,000, which is \$656,000 ahead of plan. Net profit after taxation (NPAT) for the period was \$1,199,000.

Revenues at the end of December of \$18.6 million were ahead of budget by \$0.6 million, primarily due to higher than expected demand for ESR's services, particularly by the Ministry of Health and the New Zealand Police.

Operating expenses for the first six months were well contained and some expenditure has been deferred to the second half year.

Overall the NPAT of \$1,199,000 is \$439,000 ahead of budget. Increased revenue trends are expected to continue in the second half of the year, together with the incurring of expenditure deferred in the first half year. It is expected that NPAT will exceed the budgeted target; the final result is dependent on the completion of the Mt Eden property sale.

NON-FINANCIAL PERFORMANCE MEASURES

Good overall progress was made on achieving non-financial performance outcomes.

HIGHLIGHTS

Clan Lab Funding Approved

Police confirmed an extra \$600,000 for processing clandestine (methamphetamine) laboratories for the 2003/2004 year. This has enabled four additional staff to be recruited in this key, high-profile area.

Workplace Drug Testing (WDT)

The WDT group has experienced a 32% growth in revenue over the same period last year. The implementation of bar coding and its integration into the ESRLab system have increased throughput by 30% and reduced labour by 0.75 Full-time employee.

Total Diet Survey in Fiji

ESR is negotiating its first substantial contract in the South Pacific, providing high-level consultancy for the Fijian total diet survey. Successful completion of this project is likely to lead to further contracts in related environmental health fields.

Commercialisation

ESR is continuing to evaluate, develop and progress a portfolio of investment, new business and commercialisation opportunities. These include DNA profiling interpretation software, DNA extraction technologies with a start-up biotech company, developing a bioassay to measure the effects of tobacco smoke on human addiction, and investing in proficiency service provision.

Strategic Agreements

A Memorandum of Understanding is being finalised with both the UK Forensic Science Service and the UK Health Protection Agency to encourage strategic alliances and staff exchanges. A Memorandum of Agreement is being jointly developed with the University of Canterbury.

South East Asian Sales

The Strategic Alliance and Project Agreement with Austhos Pty Limited (Australia), giving access to dealers in seven Asian countries, has delivered a sale of our Laboratory Information Management System to a DNA laboratory in Thailand. Malaysia is awaiting the introduction of legislation before the acquisition of a DNA database system can proceed.

Forensic Training in Thailand

At the end of August, at the request of the Central Institute of Forensic Sciences, three ESR scientists travelled to Bangkok to deliver a contracted nine-day Crime Scene Investigation training course. The aim of the course was to provide an overview of forensic methodologies to increase the "forensic awareness" of the participants. The total number of attendees was approximately 50, including a significant number of Police.

Pharmaceutical Testing

The demise of the PAN pharmaceutical manufacturer in Australia has increased business opportunities, particularly in stability and bioequivalence studies, as companies seek credible Good Laboratory Practice status laboratories to meet higher Therapeutic Goods Administration standards.

Report to Shareholders (cont'd)

Partners Porirua

ESR and Titahi Bay Intermediate were joint recipients of the 2003 Porirua City Business Awards, "Business/Education Partnership Award". This reflects the company's ongoing commitment to foster awareness of science in local schools.

Senior Management Appointments

David Talbot started as Manager, Business Development and Marketing on 28 July 2003. Peter O'Shea started as General Manager, Finance on 1 September 2003.

Collective Employment Agreement Signed

The Collective Employment Agreement negotiated in mid-July was signed off with the PSA on 1 September 2003. Management and PSA delegates were pleased with the outcome.

Profit Share Scheme

ESR distributes 10% of its previous year's NPAT to staff for professional development training. The scheme targets support staff, technicians and newly appointed scientists. In this second year of the scheme, \$112,000 was awarded to 42 members of staff. There were 92 applications totalling \$260,000.

MAJOR ISSUES

Access to a PC3 Facility

ESR is continuing to explore the opportunity to relocate some of its Infectious Disease Group staff to Wallaceville to access the PC3+ laboratory at the Ministry of Agriculture and Forestry's National Centre for Disease Investigation facility and form a National Centre for Biosecurity and Emerging Diseases. Such a Cooperative Crown Centre would provide a single point of contact for the whole of government for response to biosecurity incursions and emerging diseases, and would also deliver scientific synergies from the two groups working in close proximity.

Mt Eden Site Remediation

A timetable has been agreed with the purchaser for all aspects of remediation. Tender documentation for the remediation process is currently being drafted.

Breath Alcohol Challenge

One appellant has sought leave to appeal to the Court of Appeal. The case is due to be heard in early 2004.


Ian Wilson, Chairman

SCIENTIFIC AND TECHNOLOGICAL HIGHLIGHTS

Meningococcal Vaccine Trials

As part of our role in the clinical trials of the serogroup B meningococcal disease vaccine, all measurements of antibodies - to determine if there has been an immune response - are performed at ESR. Results from phase I trials indicate that the vaccine induces an appropriate immune response.

Public Good Science & Technology Funding

ESR received a significant increase in Foundation for Research, Science and Technology (FRST) funding following the Sustainability Round, with three new programmes being funded.

Non-Specific Output Fund (NSOF)

Strategic use of NSOF funding has enabled ESR to secure new capability in systems thinking research. ESR has recruited two top, internationally recognised social scientists to establish the FRST-funded "Sustainable Development - the Human Dimension" programme.

Cross-Programme Research Priorities

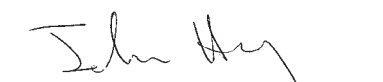
ESR has several cross-programme Research and Development initiatives underway to cluster core competencies and gain synergy and leverage of capability across the organisation. The areas include: Surveillance Information Management, Risk Perception and Risk Management, Enteric Microbiology Capability Development, Forensic Research and Biosecurity.

Drugs and Driving Study

Police, working with ESR, have secured funding from the Cross-Departmental Research Pool for a two-year Drugs and Driving Study starting in July 2004. The study to establish the incidence of drug use amongst drivers will be conducted by ESR forensic toxicologists, biostatisticians and information technology (IT) staff.

International Research Opportunities

ESR is continuing discussions with the World Health Organisation to be the agent for the development and delivery of its global health mapper project in the Pacific. The project involves the implementation of geographic information systems for providing information on disease patterns, and the development of new methods for disease modelling and forecasting.


Dr John Hay, Chief Executive Officer

Financial Statements

(unaudited)

Statement of Financial Position

As at 31 December 2003

	31/12/03 \$000s	30/06/03 \$000s	31/12/02 \$000s
Non-Current Assets			
Fixed assets	18,646	18,326	18,156
Future income tax benefit	164	164	326
	18,810	18,490	18,482
Current Assets			
Cash and bank balances	1,865	1,159	78
Accounts receivable and prepayments	2,674	3,714	2,509
Income tax receivable	-	169	16
Stock and work in progress	461	825	419
	5,000	5,867	3,022
Current Liabilities			
Accounts payable and accruals	3,133	5,368	3,227
Income tax payable	382	-	-
Leave liabilities	1,230	1,139	1,163
	4,745	6,507	4,390
Net Current Assets (Liabilities)	255	(640)	(1,368)
Non-Current Liabilities			
Term debt	-	-	-
Retirement leave liabilities	478	462	459
	478	462	459
Net Assets	18,587	17,388	16,655
Equity			
Share capital	8,494	8,494	8,494
Retained earnings	10,093	8,894	8,161
Total Equity	18,587	17,388	16,655

Financial Statements

(unaudited)

Statement of Financial Performance

For the six months ended 31 December 2003

	Six Months Ended 31/12/03 \$000s	Year Ended 30/06/03 \$000s	Six Months Ended 31/12/02 \$000s
Revenue	18,643	33,148	16,374
Operating expenses	(16,904)	(31,473)	(15,794)
Interest expense	-	(17)	(15)
Interest income	51	37	14
Operating Surplus before Taxation	1,790	1,695	579
Capital gains	-	-	-
Taxation charge for current year	(591)	(574)	(191)
Taxation benefit from prior period	-	-	-
Net Surplus After Taxation	1,199	1,121	388

Statement of Movements in Equity

For the six months ended 31 December 2003

Opening equity	17,388	16,267	16,267
Net surplus after taxation retained for the period	1,199	1,121	388
Closing Equity	18,587	17,388	16,655

Statement of Cash Flows

For the six months ended 31 December 2003

Net Cash Flow from:

Operating activities	1,981	3,676	1,517
Investing activities	(1,275)	(1,954)	(876)
Financing activities	-	(600)	(600)
Net Increase/(Decrease) in Cash Held	706	1,122	41
Opening cash position	1,159	37	37
Closing Cash Position	1,865	1,159	78

Performance Indicators

Non-Financial Performance Measures

	Six Months Ended 31/12/03 Actual	Year Ended 30/6/04 Plan	Year Ended 30/6/03 Actual	Year Ended 30/6/02 Actual
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Science Output

1. Papers accepted for publication in international, externally refereed journals, series or books	27	56	64	37
2. Papers in local, internally or editor-refereed journals, series or books	8	25	20	29
3. Conference papers and abstracts	75	96	93	94
4. Research monographs or books	-	-	-	-
5. Scientific and technical reports	58	90	110	107
6. Submissions for R&D funding	7	15	30	16

Benefit to New Zealand

1. Invitations or elections to serve on national or international scientific agencies, boards or advisory committees	33	35	50	25
2. Value of public good services provided in New Zealand (\$m)	16	32	30	25

Application and Promotion of Science

1. Involvement in conferences, workshops, hui and seminars:				
Number of events	154	220	277	177
Number of attendees	272	450	544	387
2. Availability and use of ESR Culture Collection:				
Number of cultures issued	943	2,100	2,137	2,207
3. Number of TBG contracts (Technology for Business Growth)	-	2	1	-
4. Number of science-promoting media events	35	80	85	10

Performance Indicators

Non-Financial Performance Measures (cont)

	Six Months Ended 31/12/03 Actual	Year Ended 30/6/04 Plan	Year Ended 30/6/03 Actual	Year Ended 30/6/02 Actual
Good Employer				
1. Staff turnover as a percentage of total staff (excluding redundancies and fixed term contracts)	9.8	12	12.5	14.7
2. Number of workdays lost through workplace accidents (as a % of total working days)	<0.1	<0.1	<0.1	<0.1
3. Staff composition by FTE (including Casual Staff) in the following groups:				
Research (science) teams	228	236	219	194
Research (science) support	44	39	46	36
General support and management	59	53	44	47
Total	331	328	309	277

Social Responsibility

1. Support for New Zealand 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	42	80	112	67
2. Value of ESR-funded scholarship and awards programmes (\$000s)	39*	309	161	116
3. Number of science-related talks to schools, community groups and service clubs	38	40	39	37

* This is a timing issue as the scholarships are uplifted in the second half of our financial year

Performance Indicators

Key Financial Performance Measures

	Six Months Ended 31/12/03 Actual	Year Ended 30/6/04 Plan	Year Ended 30/6/03 Actual	Year Ended 30/6/02 Actual
1. Revenue, \$m	18.6	36.2	33.2	29.2
2. EBIT margin, %	9.3	4.0	5.1	1.6
3. Return on equity, %	6.7	6.9	6.7	2.8
4. Return on assets, %	7.2	5.7	7.0	2.1
5. Acid test	1.3	0.8	0.9	0.8
6. Equity ratio, %	74.7	69.4	70.7	71.6
7. Gearing, %	-	12.5	-	3.6
8. Interest cover	-	18.5	-	-
9. Revenue/FTE, \$000s (incl. Casual Staff)	112.7	110.4	107.4	104.6