



Institute of Environmental
Science & Research Limited

Half-yearly Report

for the six months ended 31 December 2005

Contents

Statement of Responsibility	2
Report to Shareholders	3
Performance Indicators - Non-Financial Performance Measures	5
Performance Indicators - Key Financial Performance Measures	7
Financial Statements (unaudited)	8
Notes to the Financial Statements	10
Directory	12

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.

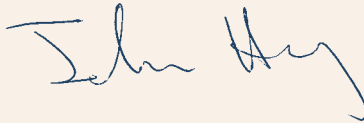
In our opinion these financial statements fairly and accurately reflect the financial position and operations of the Institute of Environmental Science and Research Ltd for the half year ended 31 December 2005.



Ian Wilson, Chairman



Keith Oliver, Director



Dr John Hay, Chief Executive Officer

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 31 December 2005.

Financial result

The financial performance for the first half of the year is on target with an operating surplus before taxation, which equals ESR's budget position. The net surplus after taxation is \$652,000. Lower than expected revenue is being matched by lower expenses.

The forecast to year-end is for the operating surplus before taxation, and the net surplus after taxation, to be lower than budget due to reduced sales expectations which, while partially offset by cost savings, are expected to result in an underachievement of original budget.

Non-financial performance measures

The non-financial performance is on target for the year with the half-yearly targets being exceeded in most areas measured.

New Board member

Dr Garth Carnaby joined the ESR Board, replacing Dr Kathy Crosier. Dr Carnaby is based in Christchurch and is principal of his own consultancy and research company, G.A. Carnaby & Associates Ltd. He recently retired as the Chief Executive of Canesis Network Ltd and is the current Chair of the Marsden Council. He is also a sitting Council Member on the Academy and Council of the Royal Society of New Zealand.

Capability funding

ESR received \$3.5 million through the Foundation for Research, Science and Technology's Capability Fund. Areas where this funding is being directed include: establishing an envirogenomics platform for addiction research, work on microbial and chemical threats, and improving community participation to support sustainable decision-making.

DNA automation

Advancement of DNA capabilities is an important development for ESR and a major project to automate parts of the forensic DNA laboratory work is underway.

Three robots have been installed to speed up the processing of DNA samples. Automation will enable the lab to respond quickly to sudden increases in workload such as "no suspect" homicides. Significant time is being spent validating the robotic processes to ensure they are operating faultlessly.

Marsden funding for viral hitchhikers project

ESR secured its first-ever Marsden funding with a project investigating how viruses travel through groundwater systems. Dr Liping Pang and her team have found that in some groundwater systems viruses travel faster than chemicals, and where there is sewerage contamination they can move faster than bacteria. They suspect that the viruses are hitching a ride on mobile colloids (large masses in sewerage). Forty per cent of New Zealand's drinking water comes from groundwater.

Nicotine addiction research

The Heart Foundation provided a research grant to ESR's envirogenomics programme investigating nicotine addiction in Maori.

International polio vaccine project - Argentina

ESR's expertise in disease surveillance and research is being utilised in an international collaborative project in Argentina. The project follows a switch in the childhood immunisation scheme from an oral polio vaccine to an inactivated vaccine in an Argentinean province. ESR is providing clinical and laboratory training for, and supervision of, the Argentineans working on the project, as well as analysing samples and assisting in validating results. The project is being funded by Sanofi-Pasteur. New Zealand was the first country in the world to monitor how long vaccine-related polioviruses circulate in the environment following a vaccine switch.

Scientific and technical reports

ESR scientists and staff are constantly undertaking research and providing scientific and technical reports on a large number of topics for a variety of government and commercial clients. In the past six months key reports that clients have made available to the public include:

- a comprehensive review of non-commercial wild foods in New Zealand for the New Zealand Food Safety Authority (NZFSA)
- the New Zealand Total Diet Survey 2003/04, also for the NZFSA
- a descriptive study of hospital discharges in the respiratory disease spray-zone for painted apple moth, for the Ministry of Health.

Report to Shareholders (cont'd)

Websites

The new-look ESR website went live following a comprehensive review and revamp. ESR is also responsible for other public websites on behalf of, or in collaboration with, other agencies, including the public health surveillance website, www.surv.esr.cri.nz, the public health observatory website, www.nzpho.org.nz, and a website providing information on New Zealand's drinking water supplies, www.drinkingwater.org.nz.

Christchurch Science Centre upgrade

A major upgrade of ESR's Christchurch Science Centre was completed. It included a new forensic service centre, upgraded cafeteria, seminar rooms and library, extended administration and office areas, and upgrades of various laboratories.

Systems thinking and complexity science conference

ESR hosted an international systems thinking and complexity science conference in Christchurch in December. The conference attracted leading thinkers and practitioners from around the world.

National Centre for Biosecurity and Infectious Disease

Work by ESR, the Ministry of Agriculture and Forestry, and other agencies, came to fruition with the virtual launch of the National Centre for Biosecurity and Infectious Disease at Parliament in August. The Hon Jim Sutton said the centre would significantly increase New Zealand's capability to safeguard human and animal health and protect the economy. The centre will be progressively established at the Wallaceville site in Upper Hutt.

Te Papa forensic day

Forensic staff and the New Zealand Police participated in a "forensic day" at Te Papa undertaken to complement the Genetic Revolution exhibition. It attracted a large number of visitors and

Te Papa reported very positive public feedback on the event. A public "forensics" lecture attracted the greatest number of attendees of the associated lecture series.

The Biotechnology Roadshow

ESR's work in criminal investigation, and in envirogenomics and health, features in Te Papa's first ever travelling roadshow. The exhibition in a large mobile trailer introduces biotechnology to the public using New Zealand research examples. The six-month roadshow tour is visiting centres nationwide.

Profit share scheme

ESR distributes 10% of its previous year's net surplus after taxation to staff for professional development training. The scheme targets support staff, technicians and newly appointed scientists. In its fourth year the scheme awarded 65 grants to staff members.

Forensic staff cultural training programme

Forensic staff from all three of ESR's science centres participated in a cultural training programme designed to provide staff attending crime scenes with an awareness of Maori practices surrounding sudden death. Police Iwi Liaison Officers and representatives of local iwi assisted with the programme. Forensic staff discussed actual cases where tikanga Maori had intersected with forensic work. A brochure outlining relevant cultural practices backs up the training programme.



Ian Wilson, Chairman



Dr John Hay, Chief Executive Officer

Performance Indicators

Non-Financial Performance Measures

	Six Months Ended 31/12/05 Actual	Year Ended 30/6/06 Plan	Year Ended 30/6/05 Actual	Year Ended 30/6/04 Actual
Science Output				
1. Papers accepted for publication in international, externally refereed journals, series or books	31	90	100	64
2. Papers in local, internally or editor- refereed journals, series or books	7	17	5	22
3. Conference papers and abstracts	85	130	122	157
4. Research monographs or books	1	1	1	-
5. Scientific and technical reports	72	120	111	111
6. Submissions for R&D funding	14	35	33	34
Benefit to New Zealand				
1. Invitations or elections to serve on national or international scientific agencies, boards or advisory committees	32	47	44	63
2. Value of public good services provided in New Zealand (\$m)	18	38	35	33
Application and Promotion of Science				
1. Involvement in conferences, workshops, hui and seminars:				
Number of events	243	350	460	357
Number of attendees	410	650	730	719
2. Availability and use of ESR Culture Collection:				
Number of cultures issued	931	2,300	2,222	2,049
3. Number of TBG (Technology for Business Growth) contracts	-	1	1	-
4. Number of science-promoting media events	81	100	147	92

Non-Financial Performance Measures (cont)

	Six Months Ended 31/12/05 Actual	Year Ended 30/6/06 Plan	Year Ended 30/6/05 Actual	Year Ended 30/6/04 Actual
Good Employer				
1. Staff turnover as a % of total staff (excluding redundancies and fixed-term contracts)	5.1	8-12	10.5	9.2
2. Number of workdays lost through workplace accidents (as a % of total working days)	-	<0.1	<0.1	<0.1
3. Staff composition by FTE (including casual staff) in the following groups:				
Research (science) teams	-	-	-	230
Research (science) support	-	-	-	52
General support and management	-	-	-	58
Total				340
3. New criteria for 3. above:				
Business services	79	68	73	
Management/general	33	33	32	
Science	264	262	250	
Total	376	363	355	
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	119	125	127	112
2. Value of ESR-funded scholarship and awards programmes (\$000s)	92	364	250	172
3. Number of science-related talks to schools, community groups and service clubs	26	40	35	55

Performance Indicators

Key Financial Performance Measures

	Six Months Ended 31/12/05 Actual	Year Ended 30/6/06 Plan	Year Ended 30/6/05 Actual	Year Ended 30/6/04 Actual
1. Revenue, \$m	20.8	46.5	40.6	36.9
2. EBIT margin, %	4.0	6.3	7.9	7.5
3. Return on equity, %	3.0	13.0	11.0	9.8
4. Return on assets, %	3.0	10.0	11.2	10.8
5. Acid test	1.5	1.1	1.4	1.2
6. Equity ratio, %	78.4	75.0	71.1	71.2
7. Gearing, %	-	10.0	-	-
8. Interest cover	-	-	-	-
9. Revenue/FTE, \$000s (incl. casual staff)	110.0	125.0	114.5	108.6

Financial Statements

(unaudited)

Statement of Financial Performance

For the six months ended 31 December 2005

	Six Months	Year	Six Months
	Ended	Ended	Ended
	31/12/05	30/06/05	31/12/04
	\$000s	\$000s	\$000s
Operating revenue	20,810	40,640	19,890
Operating expenses	(19,837)	(37,272)	(18,388)
<i>Operating Surplus before Taxation</i>	<i>973</i>	<i>3,368</i>	<i>1,502</i>
Taxation charge for current year	(321)	(1,145)	(496)
Net Surplus After Taxation	652	2,223	1,006

Statement of Movements in Equity

For the six months ended 31 December 2005

Opening equity	21,400	19,177	19,177
Net surplus after taxation retained for the period	652	2,223	1,006
Closing Equity	22,052	21,400	20,183

Statement of Cash Flows

For the six months ended 31 December 2005

Net Cash Flow from:			
Operating activities	1,398	4,457	962
Investing activities	(2,798)	(3,419)	(1,463)
Financing activities	-	-	-
Net Increase/(Decrease) in Cash Held	(1,400)	1,038	(501)
Opening cash position	3,461	2,423	2,423
Closing Cash Position	2,061	3,461	1,922

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

Financial Statements

(unaudited)

Statement of Financial Position

As at 31 December 2005

	31/12/05 \$000s	30/06/05 \$000s	31/12/04 \$000s
Non-Current Assets			
Fixed assets	21,580	19,892	19,072
Investment in subsidiaries and associates	74	-	-
Future income tax benefit	(15)	(15)	63
	21,639	19,877	19,135
Current Assets			
Cash and bank balances	2,061	3,461	1,922
Accounts receivable and prepayments	2,430	5,349	4,183
Income tax receivable	7	-	-
Stock and work in progress	658	688	534
Property intended for sale	643	643	-
	5,799	10,141	6,639
Current Liabilities			
Accounts payable and accruals	3,325	6,705	3,603
Income tax payable	-	45	193
Leave liabilities	1,639	1,446	1,350
	4,964	8,196	5,146
Net Current Assets (Liabilities)	835	1,945	1,493
Non-Current Liabilities			
Retirement leave liabilities	422	422	445
	422	422	445
Net Assets	22,052	21,400	20,183
Equity			
Share capital	8,494	8,494	8,494
Retained earnings	13,558	12,906	11,689
Total Equity	22,052	21,400	20,183

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

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 and Research Limited (ESR).

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.

Budgeted figures are included in the financial statements pursuant to the Crown Research Institutes Act 1992. These budgeted numbers are not subject to audit.

Group financial statements have not been prepared as the two subsidiaries and associate of ESR are dormant, non-trading entities, consequently there is no difference between the financial statements of the group and parent.

MEASUREMENT BASE

The financial statements are prepared on the basis of historical cost 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 the value of consideration given to acquire the assets and the value of other 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

Plant, Equipment and Vehicles 3 - 10 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 after providing against debts where collection is doubtful. 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.

(vi) Taxation

The taxation charge against the accounting surplus for the period is the estimated liability in respect of that surplus after allowance for permanent differences between accounting and tax rules.

ESR accounts for deferred taxation using the partial basis under 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) Foreign Currency Transactions

Transactions in foreign currency are translated to New Zealand dollars at the rate of the transaction. Foreign currency monetary 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 rate contained in the applicable contract.

(ix) Research and Development

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. Financial instruments carried in the Statement of Financial Position include cash and bank balances, short-term investments and accounts receivable. Such financial instruments are recognised in the Statement of Financial Position at net realisable value.

Financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged items.

Financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the Statement of Financial Performance.

Forward exchange contracts entered into as hedges of foreign exchange assets and liabilities are valued at the exchange rate prevailing at the end of the period. Any unrealised gains or losses are offset against foreign exchange gains or losses on the related asset or liability.

(xii) Impairment

Annually, the Directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying value, the asset is written down.

The impairment loss is recognised in the Statement of Financial Performance.

(xiii) 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.

(xiv) Adoption of New Zealand equivalents to International Financial Reporting Standards

In December 2002 the New Zealand Accounting Standards Review Board (ASRB) announced that all New Zealand reporting entities will be required to comply with International Financial Reporting Standards (IFRS) for periods commencing on or after 1 January 2007. ESR will adopt New Zealand equivalents to IFRS (NZIFRS) for the year ending 30 June 2008.

Upon adoption of NZIFRS, comparative information will be restated in the NZIFRS compliant financial statements. Details of the impact of the adoption to comparative information will be set out in the financial statements.

ESR is in the process of establishing a conversion project to achieve transition to NZIFRS reporting. The project will involve assessing the impacts of NZIFRS to ESR, then designing and implementing changes required to current accounting policies and procedures, as well as systems and processes, in order to successfully transition to NZIFRS. The project is currently in the development stage and as such the quantitative impacts of any changes have not been determined.

All the financial information in these financial statements has been prepared in accordance with current New Zealand Generally Accepted Accounting Practice (NZ GAAP). The differences between current NZ GAAP and NZIFRS may have a significant effect on ESR's financial position and performance depending on the final format of standards or changes in the business. None of the potential impacts of the adoption of NZIFRS on ESR's financial performance and financial position, including systems upgrades and other implementation costs, have been quantified yet.

Directory

Directors

Ian Wilson (Chairman)
Dr Garth Carnaby
Dr Roderick Ellis-Pegler
Keith Oliver
Sharon Opai
Dr Mere Roberts

Chief Executive Officer

Dr John Hay

Senior Managers

Wayne Chisnall	General Manager, Forensic
Jacob de Feijter	Manager, Science Information Management Services
Jocelyn Grainger	General Manager, Human Resources
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

Karen Shires of PricewaterhouseCoopers on behalf of the Auditor-General

Banker

The National Bank of New Zealand Limited

Solicitor

Kensington Swan



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manaaki tangata taiao hoki
protecting people and their environment through science