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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.

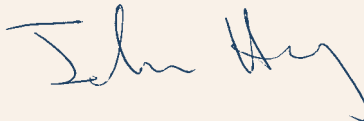
In our opinion these financial statements fairly and accurately reflect the financial position and operations of the Institute of Environmental Science and Research Ltd for the half year ended 31 December 2006.



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 2006.

Financial result

The financial performance for the first half of the year was good, with revenue to date above that planned. The operating surplus after taxation is above plan, mainly due to the sale of 17 Kelly Street, Mt Eden, which had been budgeted for the second half of the year.

The forecast to year-end is for revenue, expenses and operating surplus after taxation to be on budget.

Non-financial performance measures

The non-financial performance is on target for the year.

Scientific and technical reports

ESR scientists and staff produced 85 scientific and technical reports for a variety of government and commercial clients in the first half of the year.

17 Kelly Street remediation and sale

The sale of 17 Kelly Street, Mt Eden was completed in December after the approval of site validation reports and long-term management plans by the Auckland City and Regional Councils.

Providing science advice to Malaysia

ESR is providing expert scientific advisory services to the Malaysian Centre for Environmental Protection and Information in Selangor State. ESR will provide scientific advice on environmental protection and management and the two agencies will also collaborate on research and development projects. The Hon Phil Goff attended a signing ceremony for the memorandum of understanding between the two agencies at the Selangor State Government Office in Kuala Lumpur.

ESR Chief Executive awarded prestigious science medal

ESR Chief Executive Dr John Hay has been awarded the Thomson Medal by the Royal Society of New Zealand for outstanding and inspirational leadership in the management of science.

Dr Hay was honoured for his outstanding leadership and contribution to the international development of forensic science and public health.

Successful tender for Thai Police DNA database system

ESR was part of a three-company consortium that won the tender for the establishment of a forensic DNA database system for the Thai Police. This builds on the work ESR has already undertaken providing a forensic DNA sample management system in Thailand.

'Low copy number' DNA lab operational

Up to 50 serious criminal cases a year will be processed in ESR's new specialised "low copy number" (LCN) laboratory, which became operational in December.

It follows significant investment by ESR in upgrading forensic laboratories in Auckland, Wellington and Christchurch to accommodate the new technology. LCN enables forensic scientists to get a DNA sample from just a few cells, meaning profiles can be obtained from trace and invisible samples such as a touch on a keyboard or a nose print on glass.

Forensic laboratory accreditation audit

ESR's forensic laboratories were audited by a team from the American Society of Crime Laboratory Directors/Laboratory Accreditation Board (ASCLD/LAB). The detailed examination is undertaken every five years to give international accreditation at the ISO 17025 level.

Microbial and chemical forensics stakeholder workshop

Australian and New Zealand stakeholders from a wide variety of organisations attended an ESR-led workshop to facilitate discussions on New Zealand's future requirements in microbial and chemical forensics. It included representatives from the Department of Prime Minister and Cabinet (both New Zealand and Australia), various New Zealand government ministries, funding bodies, first responders and Crown Research Institutes.

ESR is investing in a microbial and chemical forensics programme to ensure that New Zealand has the capability to respond to and recover from chemical and biological risk agents originating from biosecurity incursions, major infectious disease outbreaks, terrorism threats and accidental chemical spills.

Report to Shareholders (cont'd)

Avian flu surveillance research

ESR is involved in a National Centre for Biosecurity and Infectious Disease - Wallaceville research project working with farmers and backyard poultry keepers to find out more about the avian influenza virus in backyard poultry flocks.

The research is designed to improve understanding of how viruses move from wild birds to poultry and what circumstances, if any, lead to these viruses appearing in farming households. The study is being undertaken in two parts over two years.

New test for campylobacter

ESR scientists have developed a new molecular typing assay to distinguish the different strains and species of campylobacter. The assay, based on amplified fragment length polymorphisms, is fast and very discriminatory and will aid outbreak detection.



Ian Wilson, Chairman

New research funds

ESR was successful in securing funding for new research projects. A Marsden was awarded for a project looking at DNA evidence, the Lottery Health Research fund is providing a grant investigating the pharmacokinetics of party pills and ESR also received funding as part of a Pasture 21 Fund grant for a four-year AgResearch-led project.

2006 ESR Science Conference

The biennial ESR Science Conference was very successful, with a high standard of presentations covering all aspects of ESR's activities. Three visiting ESR international fellows gave plenary talks on social science research, microbial and chemical forensics and groundwater modelling.



Dr John Hay, Chief Executive Officer

Performance Indicators

Non-Financial Performance Measures

	Six Months Ended 31/12/06 Actual	Year Ended 30/6/07 Plan	Year Ended 30/6/06 Actual	Year Ended 30/6/05 Actual
Benefit to New Zealand				
1. Value of public good services provided in New Zealand (\$m)	21	40	39	35
2. Invitations or elections to serve on national or international scientific agencies, boards or advisory committees	31	50	51	44
Science Output				
1. Papers accepted for publication in international, externally refereed journals, series or books	43	85	74	100
2. Papers in local, internally or editor-refereed journals, series or books	7	20	12	5
3. Invited keynote and plenary presentations - <i>costs paid in full or part</i>	14	30	<i>New criteria</i>	
4. Conference papers and abstracts	92	130	140	122
5. Research monographs or books	-	1	1	1
6. Popular books	-	-	-	-
7. Scientific and technical reports	85	125	135	111
8. Submissions for R&D funding	25	40	44	33
Application and Promotion of Science				
1. Official involvement in conferences, workshops, hui and seminars:				
Number of events	228	450	424	460
Number of attendees	407	750	848	730
2. Availability and use of ESR Culture Collection:				
Number of cultures issued	913	2,300	1,911	2,222
3. Number of TBG (Technology for Business Growth) contracts	-	1	-	1
4. Number of science-promoting media events	68	160	169	147

Non-Financial Performance Measures (cont'd)

	Six Months Ended 31/12/06 Actual	Year Ended 30/6/07 Plan	Year Ended 30/6/06 Actual	Year Ended 30/6/05 Actual
Good Employer				
1. Staff turnover as a % of total staff (excluding redundancies and fixed-term contracts)	10.9	8-12	9.1	10.5
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:				
Business Services	72	72	70	73
Management/general	34	39	34	32
Science	288	289	281	250
Total	394	400	385	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	138	140	204	127
2. Value of ESR-funded scholarship and awards programmes (\$000s)	73	389	308	250
3. Number of science-related talks to schools, community groups and service clubs	35	40	38	35

Performance Indicators

Key Financial Performance Measures

	Six Months Ended 31/12/06 Actual	Year Ended 30/6/07 Plan	Year Ended 30/6/06 Actual	Year Ended 30/6/05 Actual
1. Revenue, \$m	25.1	49.7	45.5	40.6
2. EBIT margin, %	11.4	6.4	8.0	7.9
3. Return on equity, %	10.9	12.0	11.3	11.0
4. Return on assets, %	8.6	10.9	11.3	11.2
5. Acid test	1.5	0.6	1.2	1.4
6. Equity ratio, %	76.3	76.6	71.2	71.1
7. Gearing, %	-	7.8	-	-
8. Interest cover	-	-	-	-
9. Revenue/FTE, \$000s (incl. casual staff)	127.2	124.0	117.3	114.5

Financial Statements

(unaudited)

Statement of Financial Performance

For the six months ended 31 December 2006

	Six Months	Year	Six Months
	Ended	Ended	Ended
	31/12/06	30/06/06	31/12/05
	\$000s	\$000s	\$000s
Operating revenue	25,117	45,464	20,810
Operating expenses	(22,156)	(41,598)	(19,837)
<i>Operating Surplus before Taxation</i>	2,961	3,866	973
Taxation charge for current year	(977)	(1,295)	(321)
Capital gain	773	-	-
Net Surplus After Taxation	2,757	2,571	652

Statement of Movements in Equity

For the six months ended 31 December 2006

Opening equity	23,971	21,400	21,400
Net surplus after taxation retained for the period	2,757	2,571	652
Closing Equity	26,728	23,971	22,052

Statement of Cash Flows

For the six months ended 31 December 2006

Net Cash Flow from:			
Operating activities	2,883	4,664	1,398
Investing activities	(1,541)	(6,196)	(2,798)
Financing activities	-	-	-
Net Increase/(Decrease) in Cash Held	1,342	(1,532)	(1,400)
Opening cash position	1,929	3,461	3,461
Closing Cash Position	3,271	1,929	2,061

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

Financial Statements

(unaudited)

Statement of Financial Position

As at 31 December 2006

	31/12/06	30/06/06	31/12/05
	\$000s	\$000s	\$000s
Non-Current Assets			
Fixed assets	25,682	23,715	21,580
Investment in subsidiaries and associates	308	308	74
Future income tax benefit	-	-	(15)
	25,990	24,023	21,639
Current Assets			
Cash and bank balances	3,271	1,929	2,061
Accounts receivable and prepayments	3,885	6,407	2,430
Income tax receivable	-	-	7
Stock and work in progress	795	703	658
Property intended for sale	-	797	643
	7,951	9,836	5,799
Current Liabilities			
Accounts payable and accruals	4,282	7,520	3,325
Income tax payable	537	201	-
Leave liabilities	1,907	1,639	1,639
	6,721	9,360	4,964
Net Current Assets / (Liabilities)	1,230	476	835
Non-Current Liabilities			
Deferred tax	124	124	-
Retirement leave liabilities	368	404	422
	492	528	422
Net Assets	26,728	23,971	22,052
Equity			
Share capital	8,494	8,494	8,494
Retained earnings	18,234	15,477	13,558
Total Equity	26,728	23,971	22,052

*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 Ltd (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

- 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.
- 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 date 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 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 on comparative information will be set out in the financial statements.

ESR is in the process of establishing a conversion project to achieve the transition to NZIFRS reporting. The project will involve assessing the impacts of NZIFRS on ESR, then designing and implementing the 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, has 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