





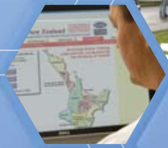


# Half-yearly Report

## for the six months ended 31 December 2007






ESR

Institute of Environmental Science & Research Limited

# Contents

# 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 2007.

Ian Wilson, Chair

Dr Garth Carnaby, Deputy Chair

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 2007.

### Financial result

The financial performance for the first half of 2007/08 was Net Surplus after Taxation of $1.0m which is below target by $0.4m. Revenue for the period was $24.8m which is $2.0m lower than expected. This has been offset by a reduction in expenditure of $1.4m.

The forecast for year end is for an operating surplus of $2.0m, which is $0.3m less than budgeted. This is a result of reduced sale expectation in both service contracts and research income. However this will be partially offset by cost savings.

### Research Application Metrics

ESR is on track to meet its research application metric targets.

### Scientific and technical reports

ESR scientists and staff produced 80 scientific and technical reports for a variety of government and commercial clients in the first half of the year.

### National Centre for Biosecurity and Infectious Disease – Wallaceville

The building of ESR's new laboratories at Wallaceville is well underway with completion expected early in the new year. It will house up to 30 staff in three new PC2 laboratories and office space.

### Forensic Science Summit

ESR staff participated in a Forensic Science Summit in October. The Summit was opened by Police Minister, the Hon Annette King. A committee, chaired by Law Commissioner Warren Young, brought together New Zealand and overseas experts to look at the value forensic science provides to the criminal justice system and what the criminal justice system is likely to need from forensic science in the near and long-term future. Summit participants also discussed how more forensic research could be funded.

### Influenza mortality report

A report by ESR has found that the incidence of influenza in the community has significantly decreased over the past decade, with a 70% drop in influenza-related deaths. However, influenza hospitalisations have increased over the same period with more than 4,400 people admitted to hospital. ESR looked at national influenza surveillance data collected from 1997 to 2006. The data included community disease burden, circulating virus strains, hospitalisations, mortality and immunisation coverage, and was compared with the previous ten-year period.

### Acute gastrointestinal illness (AGI) study

A major year-long study, conducted for the New Zealand Food Safety Authority by ESR, estimated that more than five million working days are lost each year in New Zealand due to gastrointestinal illness. It also concluded that data from the notifiable disease reporting system may not be the most efficient way of providing risk management information for widespread illnesses such as diarrhoea and vomiting. The study indicated that New Zealand's rate of AGI of 7.8% is similar to those of other developed countries that have carried out similar studies. It involved three parts, covering the community, general practitioners and medical laboratories.

### Assisting China with flu surveillance

ESR's senior influenza scientist and head of the World Health Organization (WHO) Influenza Centre in New Zealand, Dr Sue Huang, has been assessing China's northern provinces' influenza surveillance capability. She was invited on the joint WHO and Chinese Ministry of Health mission to assist with assessing laboratory and surveillance capacity in the Liaoning and Xinjiang provinces.

### Electronic disease notifications

ESR has been working with the Ministry of Health and representatives from clinical laboratories and the health sector to develop messaging standards and processes for the transfer of electronic notification messages. From 21 December 2007, the Epidemic Preparedness Act 2006 requires laboratories to notify Medical Officers of Health of positive laboratory tests for notifiable diseases. Previously only clinicians had to provide these notifications. The new standards will enable laboratories, general practitioners and clinicians to send electronic notifications as required by the Act.

### Impact – ing on meat food safety

A new collaboration between ESR, Massey University and AgResearch to improve the control of pathogens in meat and meat products has been funded by the Foundation for Research, Science and Technology (FRST). IMPACT - Improved Pathogen Control Technologies, is aimed at protecting public health in New Zealand and our international trade. FRST is providing $4.6 million over six years. ESR is co-ordinating the project, which includes novel and environmentally friendly methods of eliminating and/or reducing important food-poisoning organisms, with the focus on *Escherichia coli* 0157.

### Chemical genetics capability

ESR is collaborating with the Centre for Biodiscovery at Victoria University of Wellington to develop capability in the field of chemical genetics. At ESR, it is likely to be applied to the field of microbial forensic investigation and could have useful applications in monitoring environmental pollution.

### Drug discovery centre

ESR is involved in a new virtual research centre for biology and drug discovery. The Biomolecular Interaction Centre is a collaborative project between ESR, Crop and Food and Canterbury, Lincoln and Otago Universities. The Centre will focus on drug discovery, biotechnology and the development of new bio-nanomaterials.

### National Centre for Lifecourse Research

ESR is a partner in the newly formed National Centre for Lifecourse Research based at the University of Otago. Several New Zealand and international research groups are involved in the Centre, which is studying human health and development, families, relationships and social outcomes over the course of people's lives.

Ian Wilson, Chair

Dr Garth Carnaby, Deputy Chair

Dr John Hay, Chief Executive Officer

# Research Application Metrics

| | Six Months Ended 31/12/07 Actual | Year Ended 30/6/08 Plan | Year Ended 30/6/07 Actual | Year Ended 30/6/06 Actual |
|---|---|---|---|---|
| **Benefit to New Zealand** | | | | |
| 1. Value of public good services provided in New Zealand ($m) | 21 | 44 | 42 | 39 |
| 2. Invitations or elections to serve on national or international scientific agencies, boards or advisory committees | 25 | 52 | 53 | 51 |
| **Science Output** | | | | |
| 1. Papers accepted for publication in international, externally refereed journals, series or books | 41 | 100 | 89 | 74 |
| 2. Papers in local, internally or editor-refereed journals, series or books | 10 | 15 | 9 | 12 |
| 3. Invited keynote and plenary presentations - *costs paid in full or part* | 22 | 30 | 26 | *New criterion* |
| 4. Conference papers and abstracts | 72 | 140 | 154 | 140 |
| 5. Research monographs or books | 1 | 1 | 1 | 1 |
| 6. Popular books | - | - | - | - |
| 7. Scientific and technical reports | 80 | 135 | 122 | 135 |
| 8. Submissions for R&D funding | 19 | 45 | 40 | 44 |
| **Application and Promotion of Science** | | | | |
| 1. Official involvement in conferences, workshops, hui and seminars: | | | | |
| Number of events | 188 | 475 | 387 | 424 |
| Number of attendees | 347 | 750 | 673 | 848 |
| 2. Availability and use of ESR Culture Collection: | | | | |
| Number of cultures issued | 824 | 2,000 | 1,982 | 1,911 |
| 3. Number of TBG (Technology for Business Growth) contracts | - | 1 | - | - |
| 4. 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 | 131 | 170 | 251 | 204 |

## Research Application Metrics (cont'd)

| | Six Months Ended 31/12/07 Actual | Year Ended 30/6/08 Plan | Year Ended 30/6/07 Actual | Year Ended 30/6/06 Actual |
|---|---|---|---|---|
| Application and Promotion of Science *continued* | | | | |
| 5. Number of science-promoting media events | 129 | 140 | 130 | 169 |
| 6. Number of science-related talks to schools, community groups and service clubs | 30 | 45 | 52 | 38 |
| Good Employer | | | | |
| 1. Staff turnover as a % of total staff (excluding redundancies and fixed-term contracts) | 7 | 8-12 | 12 | 9.1 |
| 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: | | | | |
| Business Services | | | 74 | 70 |
| Management/General | | | 32 | 34 |
| Science | | | 276 | 281 |
| **Total** | | | **382** | **385** |
| *New Criterion* | | | | |
| Research | 259 | 285 | | |
| Research support | 53 | 58 | | |
| Other | 55 | 61 | | |
| **Total** | **367** | **404** | | |

# Key Financial Performance Measures

| | Six Months Ended 31/12/07 Actual | Year Ended 30/6/08 Plan | Year Ended 30/6/07 Actual*** | Year Ended 30/6/06 Actual*** |
|---|---|---|---|---|
| 1. Revenue, $m | 25.0 | 56.7 | 51.0 | 45.5 |
| 2. EBIT* margin, % | 5.7 | 6.8 | 9.0 | 6.5 |
| 3. Return (NPAT**) on equity, % | 3.6 | 8.2 | 13.9 | 10.5 |
| 4. Return (EBIT*) on assets, % | 3.8 | 9.5 | 12.6 | 9.1 |
| 5. Acid test, ratio | 1.1 | 0.8 | 1.3 | 1.1 |
| 6. Equity ratio, % | 73.8 | 75.0 | 70.4 | 69.5 |
| 7. Gearing, % | 1.2 | 7.8 | 1.8 | 2.2 |
| 8. Interest cover | - | 28.5 | - | - |
| 9. Annualised revenue per full-time equivalent, $000 (incl. casual staff) | 136.1 | 132.8 | 133.6 | 118.1 |

* Earnings (surplus) before interest and taxation

** Net profit after taxation

*** Ratios restated to reflect the impact of transition to New Zealand Equivalents to International Financial Reporting Standards (NZIFRS)

# Interim Financial Statements

## Income Statement

### For the six months ended 31 December 2007

| | Group Unaudited 6 Months Ended 31 December 2007 $'000 | Group 12 Months Ended 30 June 2007 $'000 | Group Unaudited 6 Months Ended 31 December 2006 $'000 |
|---|---|---|---|
| Operating Revenue | 24,793 | 50,718 | 25,793 |
| Operating Expenses | (23,362) | (46,131) | (22,271) |
| **Operating Surplus before Net Interest and Taxation** | **1,431** | **4,587** | **3,522** |
| Interest Income | 176 | 312 | 97 |
| Interest Expense | (124) | (58) | (44) |
| **Net Interest Income** | **52** | **254** | **53** |
| **Net Surplus before Taxation** | **1,483** | **4,841** | **3,575** |
| Income Tax | (490) | (1,285) | (936) |
| **Net Surplus after Taxation** | **993** | **3,556** | **2,639** |

## Statement of Movements in Equity

### For the six months ended 31 December 2007

| | Group Unaudited 6 Months Ended 31 December 2007 $'000 | Group 12 Months Ended 30 June 2007 $'000 | Group Unaudited 6 Months Ended 31 December 2006 $'000 |
|---|---|---|---|
| Equity at the Beginning of the Period | 27,265 | 23,773 | 23,773 |
| Dividend | - | (64) | - |
| Net Surplus after Taxation | 993 | 3,556 | 2,639 |
| **Equity at the End of the Period** | **28,258** | **27,265** | **26,412** |

The accompanying notes form an integral part of these financial statements

# Balance Sheet
## As at 31 December 2007

| | Group Unaudited 31 December 2007 $'000 | Group 30 June 2007 $'000 | Group Unaudited 31 December 2006 $'000 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Property, Plant and Equipment | 28,131 | 26,537 | 25,603 |
| Intangible Assets | 1,549 | 641 | 911 |
| Deferred Taxation | 381 | 390 | 393 |
| | ***30,061*** | ***27,568*** | ***26,907*** |
| **Current Assets** | | | |
| Cash and Cash Equivalents | 2,484 | 4,431 | 3,271 |
| Trade and Other Receivables | 4,473 | 4,736 | 4,786 |
| Income Tax Receivable | 177 | 217 | - |
| Inventories | 457 | 637 | 795 |
| | ***7,591*** | ***10,021*** | ***8,852*** |
| **Current Liabilities** | | | |
| Trade and Other Payables | 6,446 | 6,976 | 5,187 |
| Employee Benefits | 1,925 | 2,077 | 2,241 |
| Finance Lease Liabilities | 226 | 301 | 362 |
| Income Tax Payable | - | - | 537 |
| | ***8,597*** | ***9,354*** | ***8,327*** |
| **Net Current Assets/(Liabilities)** | **(1,006)** | **667** | **525** |
| **Non-Current Liabilities** | | | |
| Employee Benefits | 690 | 776 | 799 |
| Finance Lease Liabilities | 107 | 194 | 221 |
| | ***797*** | ***970*** | ***1,020*** |
| **Net Assets** | **28,258** | **27,265** | **26,412** |
| **Equity** | | | |
| Share Capital | 8,494 | 8,494 | 8,494 |
| Retained Earnings | 19,764 | 18,771 | 17,918 |
| **Total Equity** | **26,258** | **27,265** | **26,412** |

The accompanying notes form an integral part of these financial statements

# Statement of Cash Flows

## For the six months ended 31 December 2007

| | Note | Group Unaudited 6 Months Ended 31 December 2007 $'000 | Group 12 Months Ended 30 June 2007 $'000 | Group Unaudited 6 Months Ended 31 December 2006 $'000 |
|---|---|---|---|---|
| **Cash Flows From/(Used in) Operating Activities** | | | | |
| *Cash was provided from:* | | | | |
| Customers | | 25,275 | 52,036 | 27,045 |
| Interest Received | | 176 | 312 | 97 |
| | | 25,451 | 52,348 | 27,142 |
| *Cash was applied to:* | | | | |
| Suppliers and Employees | | (22,284) | (43,717) | (23,419) |
| Interest Paid | | (124) | (58) | (44) |
| Income Tax Paid | | (442) | (1,740) | (641) |
| | | (22,850) | (45,515) | (24,104) |
| **Net Cash Inflow from Operating Activities** | 2 | **2,601** | **6,833** | **3,038** |
| **Cash Flows from/(Used In) Investing Activities** | | | | |
| *Cash was provided from:* | | | | |
| Proceeds from Sale of Property, Plant and Equipment | | - | 1,648 | 1,651 |
| | | - | 1,648 | 1,651 |
| *Cash was applied to:* | | | | |
| Purchase of Property, Plant and Equipment | | (3,136) | (4,961) | (2,820) |
| Purchase of Intangible Assets | | (1,250) | (509) | (335) |
| | | (4,386) | (5,470) | (3,155) |
| **Net Cash Outflow from Investing Activities** | | **(4,386)** | **(3,822)** | **(1,504)** |
| **Cash Flows from/(Used in) Financing Activities** | | | | |
| *Cash was provided from/(applied to):* | | | | |
| Dividends Paid | | - | (64) | - |
| Repayment of Finance Lease Liabilities | | (162) | (445) | (192) |
| **Net Cash Outflow from Financing Activities** | | **(162)** | **(509)** | **(192)** |
| **Net Increase/(Decrease) in Cash Held** | | **(1,947)** | **2,502** | **1,342** |
| Cash and Cash Equivalents at the Beginning of the Period | | 4,431 | 1,929 | 1,929 |
| **Cash and Cash Equivalents at the End of the Period** | | **2,484** | **4,431** | **3,271** |

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 interim 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. For the purposes of financial reporting ESR is a profit-oriented entity.

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

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.

The reporting period for these interim financial statements is the six months ended 31 December 2007.

### b) Basis of Preparation

The 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 policies have been consistently applied to all the periods presented, unless otherwise stated.

These interim financial statements are presented in New Zealand dollars, which is ESR's functional and presentation currency.

### c) Statement of Compliance

These interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZGAAP"). These unaudited interim financial statements have been prepared in accordance with New Zealand International Accounting Standard 34 Interim Financial Reporting.

These are ESR's first interim financial statements to be prepared in accordance with (NZIFRS). NZIFRS 1 *First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards* ("NZIFRS 1") has been applied.

Reconciliation and explanations of how the transition to NZIFRS has affected the reported financial position and financial performance of ESR is contained in note 3 of these interim financial statements.

### d) Accounting Estimates and Judgements

The preparation of interim financial statements in conformity with NZIFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Management's judgements, which would have the most significant effect on amounts recognised in the financial statements, are found in revenue. In recognising when revenue has been earned, Management make judgements on the stage of completion of certain projects. The stage of completion is assessed and reported on a monthly basis.

**e) Basis of Consolidation**

The financial statements consolidate the results of subsidiaries using the purchase method and the results of associates using the equity method.

**f) Revenue**

*i) Sales of goods or services*

Revenue is earned by ESR in exchange for the provision of outputs (products or services) to third parties. Revenue from the supply of goods and services is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. 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 as it accrues, using the effective interest rate method.

**g) Trade Receivables**

Trade receivables 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.

**h) Employee Benefits**

*i) Wages, salaries and annual leave*

Liabilities for wages and salaries, in particular annual leave that is expected to be settled within 12 months of the reporting date, are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Obligations for contributions to defined contribution retirement plans are recognised in the Income Statement as they fall due.

*ii) Long service leave, retiring leave and development leave*

The liability for long service leave, retiring leave and development leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date for Government Bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**i) Foreign Currency**

Transactions in foreign currencies are initially translated at the foreign exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Income Statement.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**j) Goods and Services Tax**

Items in the Income Statement and Statement of Cash Flows are disclosed net of Goods and Services Tax ("GST"). All items in the Balance Sheet are stated net of GST with the exception of receivables and payables, which include GST invoiced.

**k) Intangible Assets**

*i) Computer software*

Items of computer software that do not comprise an integral part of the related hardware, are treated as intangible assets with finite lives. Intangible assets with finite lives are recorded at cost, and subsequently recorded at cost less any accumulated amortisation and impairment losses. Amortisation is charged to the Income Statement on a straight-line basis over the useful life of the asset. Typically, the estimated useful life of computer software is three years.

*ii) Development costs - internally generated intangible assets*

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Expenditure incurred on the research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred. Amortisation is charged to the Income Statement on a straight-line basis over the useful life of the asset.

*iii) Indefinite life assets*

An intangible asset with an indefinite life is tested for impairment annually. Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised in the Income Statement.

**l) Leases**

Finance leases transfer to ESR, as lessee, substantially all the risks and rewards incidental to ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Any property, plant and equipment acquired under a finance lease is depreciated over the shorter of the asset's useful life and lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

**m) Trade and Other Payables**

These amounts represent the best estimate of the expenditure required to settle an obligation arising from goods or services provided to ESR prior to period end. These amounts are unsecured and are usually paid within 30 days of recognition. Liabilities and provisions to be settled beyond 12 months are recorded at their present value.

**n) Property, Plant and Equipment**

Property, plant and equipment are initially recorded at cost, and subsequently at cost less accumulated depreciation. The cost of property, plant and equipment includes the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended use.

The carrying amounts of plant, property and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Income Statement.

Realised gains and losses arising from the disposal of property, plant and equipment are recognised in the Income Statement in the period in which the transactions occur.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. The estimated useful lives of different classes of property, plant and equipment are as follows:

| | |
|---|---|
| Freehold buildings | 25-50 years |
| Leasehold improvements | 10 years |
| Plant, equipment and vehicles | 3-10 years |
| IT equipment and software | 3 years |

**o) Inventories**

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.

**p) Taxation**

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction. This is then adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settle. The relevant tax rates are applied to the cumulative amount of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and the tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**q) Share Capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown as appropriate in equity as a deduction, net of tax, from the proceeds.

**r) Dividends**

A provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

**s) 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. The following definitions are used in the Statement of Cash Flows:

- Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and investments.
- Financing activities are those activities that result in changes to the size and composition of the capital structure of ESR. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Operating activities are the principal revenue-producing activities and other activities that are not investing or financing activities.

**t) Financial Instruments**
The designation of financial assets and financial liabilities by ESR into instrument categories is determined by the business purpose of the financial instruments, the policies and practices of Management, the relationship with other instruments and the reporting costs and benefits associated with each designation. The designations applied by ESR are reflected in the financial statements.

*i) Financial assets*
Financial assets held by ESR include cash and bank balances and trade receivables.

Receivables specifically are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables issued with a duration less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

Gains or losses from interest, foreign exchange or other fair value movements and impairment losses are separately reported in the Income Statement. Transaction costs are expensed as they are incurred.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with a maturity of no more than three months from the date of acquisition.

*ii) Financial liabilities*
Financial liabilities held by ESR include trade and other payables.

Such financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with a duration less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the Income Statement as is any gain or loss when the liability is derecognised.

*iii) Derivatives*
Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively. ESR does not use hedge accounting, and as such derivatives are classified as held-for-trading financial instruments with fair value gains or losses recognised in the Income Statement. Such derivatives may be entered into for risk management purposes.

## 2. RECONCILIATION OF NET SURPLUS AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

| | Group Unaudited 6 Months Ended 31 December 2007 $'000s | Group 12 Months Ended 30 June 2007 $'000 | Group Unaudited 6 Months Ended 31 December 2006 $'000 |
|---|---|---|---|
| **Net Surplus after Taxation** | **993** | **3,556** | **2,639** |
| **Non-cash items:** | | | |
| Depreciation and Amortisation | 1,876 | 2,962 | 1,415 |
| Impairment of Development Costs | - | 268 | - |
| Deferred Taxation | 9 | (39) | (41) |
| Increase/(Decrease) in Financial Liabilities | (86) | 24 | 47 |
| | **1,799** | **3,215** | **1,421** |
| **Impact of Changes in Investing Activities:** | | | |
| (Gain)/Loss on Sale of Assets | 9 | (851) | (854) |
| **Changes in Working Capital:** | | | |
| (Increase)/Decrease in Trade and Other Receivables | 263 | 1,672 | 1,622 |
| Increase/(Decrease) in Income Tax Payable | 40 | (418) | 336 |
| (Increase)/Decrease in Inventories | 180 | 66 | (93) |
| Increase/(Decrease) in Trade and Other Payables | (683) | (407) | (2,033) |
| | **(200)** | **913** | **(168)** |
| **Net Cash Inflow/(Outflow) from Operating Activities** | **2,601** | **6,833** | **3,038** |

## 3. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that all New Zealand reporting entities would be required to comply with NZIFRS for periods commencing on or after 1 January 2007. ESR has adopted NZIFRS for the year ending 30 June 2008.

In complying with NZIFRS for the first time, ESR has restated comparative balances applying NZIFRS. This has required a restatement of opening balances as at 1 July 2006 (being the transition date) and as at 30 June 2007, which will impact on the Income Statements and Balance Sheets previously reported.

ESR has established a conversion project to achieve the transition to NZIFRS reporting. The project involved 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 transition successfully to NZIFRS.

**Impact on Transition to NZIFRS**

The rules for first-time adoption are set out in NZIFRS 1 *First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards* ("NZIFRS 1"). In general, accounting policies must be applied retrospectively to determine the opening balance sheet as at transition date, being 1 July 2006. NZIFRS 1 allows a number of mandatory and optional exemptions from full retrospective application of NZIFRS. ESR has applied the mandatory exemptions, and no optional exemptions.

The impact of the transition to NZIFRS from existing NZFRS is set out in the following tables. The tables describe the impact on equity, total liabilities and total assets as at 1 July 2006, being the date of initial transition. The second and third tables detail the impact on equity, total liabilities, total assets, and net surplus after tax as at 31 December 2006 and 30 June 2007, being the comparative period for this interim report, and the date of the latest period presented in the most recent annual financial statements respectively.

**Impact on ESR's Equity, Total Liabilities, and Total Assets on Initial Transition to NZIFRS at 1 July 2006**

| | Notes | Share Capital $'000 | Retained Earnings/ (Deficit) $'000 | Liabilities $'000 | Assets $'000 |
|---|---|---|---|---|---|
| **Total Reported under NZFRS (audited)** | | **8,494** | **15,471** | **9,888** | **33,853** |
| *NZIFRS adjustments* | | | | | |
| Deferred Taxation | 1 | - | 476 | (124) | 352 |
| Forward Exchange Contracts | 2 | - | 6 | 383 | 389 |
| Employee Benefits | 3 | - | (650) | 650 | - |
| Intangible Assets | 4 | - | - | - | 389 |
| Finance Lease Liabilities | 5 | - | (24) | 750 | 726 |
| Property, Plant and Equipment | 4/5 | - | - | - | (389) |
| Total NZIFRS Adjustments | | - | (192) | 1,659 | 1,467 |
| **Total Restated under NZIFRS at 1 July 2006** | | **8,494** | **15,279** | **11,547** | **35,320** |

**Impact on ESR's Equity, Total Assets, and Net Surplus after Taxation on Transition to NZIFRS at 31 December 2006**

| | Notes | Share Capital $'000 | Retained Earnings/ (Deficit) $'000 | Liabilities $'000 | Assets $'000 | Net Surplus after Taxation $'000 |
|---|---|---|---|---|---|---|
| **Total Reported under NZFRS** | | 8,494 | 18,234 | 8,502 | 35,230 | 2,757 |
| *NZIFRS adjustments* | | | | | | |
| Deferred Taxation | 1 | - | 517 | (124) | 393 | 41 |
| Forward Exchange Contracts | 2 | - | (6) | (383) | (389) | (6) |
| Employee Benefits | 3 | - | (769) | 769 | - | (119) |
| Intangible Assets | 4 | - | - | - | 603 | - |
| Finance Lease Liabilities | 5 | - | (58) | 583 | 525 | (34) |
| Property, Plant and Equipment | 4/5 | - | - | - | (603) | - |
| Total NZIFRS Adjustments | | - | (316) | 845 | 529 | (118) |
| **Total Restated under NZIFRS at 31 December 2006** | | **8,494** | **17,918** | **9,347** | **35,759** | **2,639** |

Note that for the purposes of ensuring that comparative balances have been consistently reported, some items in the NZFRS liabilities and assets presented above have been reclassified from their presentation in the 31 December 2006 interim report. The reclassification has no net impact on net assets, or net surplus after taxation, from that previously reported.

**Impact on ESR's Equity, Total Liabilities, Total Assets and Net Surplus after Taxation on Transition to NZIFRS at 30 June 2007**

| | Notes | Share Capital $'000 | Retained Earnings/ (Deficit) $'000 | Liabilities $'000 | Assets $'000 | Net Surplus after Taxation $'000 |
|---|---|---|---|---|---|---|
| **Total Reported under NZFRS (audited)** | | 8,494 | 19,141 | 9,103 | 36,738 | 3,728 |
| *NZIFRS adjustments* | | | | | | |
| Deferred Taxation | 1 | - | 452 | (62) | 390 | (24) |
| Employee Benefits | 3 | - | (788) | 788 | - | (138) |
| Intangible Assets | 4 | - | - | - | 601 | - |
| Finance Lease Liabilities | 5 | - | (34) | 495 | 461 | (10) |
| Property, Plant and Equipment | 4/5 | - | - | - | (601) | - |
| Total NZIFRS Adjustments | | - | (370) | 1,221 | 851 | (172) |
| **Total Restated under NZIFRS at 30 June 2007** | | **8,494** | **18,771** | **10,324** | **37,589** | **3,556** |

***1. Taxation***

On transition to NZIFRS the balance sheet method of tax effect accounting has been adopted, as opposed to the partial basis under the liability method under NZFRS. In accordance with the balance sheet approach in NZIAS 12 *Income Taxes*, income tax in the Income Statement for the period comprises current and deferred taxes. Deferred tax uses the balance sheet liability method to provide for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes.

Deferred tax is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using enacted tax rates at the Balance Sheet date.

The impact of the change in calculation basis, and the recognition of additional provisions for employee benefits (refer 3 below) under NZIFRS as at 1 July 2006 resulted in the recognition of a deferred tax asset of $352,000 (rather than an NZFRS-based deferred tax liability of $124,000).

As at 30 June 2007, the impact of the transition to NZIFRS resulted in the recognition of a deferred tax asset of $390,000 (rather than a deferred tax liability of $62,000 under NZFRS).

***2. Forward Exchange Contracts***

Under existing NZFRS not all derivative instruments are recognised on the Balance Sheet. Under NZIFRS 39 *Financial Instruments and Recognition*, all derivative instruments will be recognised on the balance sheet.

On transition to NZIFRS, ESR applied the optional exemption from full retrospective compliance and has designated forward exchange contracts to financial assets and liabilities at fair value through the profit and loss. Hence derivative instruments will be recorded on the Balance Sheet at fair value, and any change in that fair value will be taken to the Income Statement.

On transition to NZIFRS as at 1 July 2006, ESR recognised financial derivatives on its Balance Sheet comprising a liability of $383,000, and an asset of $389,000.

Derivatives are entered into by ESR from time to time to hedge against particular risks.

### *3. Employee Benefits*

Under NZFRS, a liability for certain employee benefits was required to be recognised once the benefit vested. Under NZIAS 19 *Employee Benefits*, employee benefits are required to be accrued as they are earned. Future benefits are calculated using the appropriate discount rate. Under NZIFRS ESR has recognised an increase in employee benefit-related liabilities, relating to sick and development leave of $650,000 as at 1 July 2006 and $788,000 as at 30 June 2007.

### *4. Intangible Assets*

By virtue of NZIAS 38 *Intangible Assets*, where software is not integral to the related hardware, it must be recognised as an intangible asset. The impact of NZIFRS is a reclassification of the net book value of such software from property, plant and equipment to a new intangible assets classification. As at 1 July 2006 the transferred net book value was $389,000 and at 30 June 2007 $601,000.

### *5. Finance Lease Liabilities*

Under the requirements of NZIAS 17 *Leases*, where substantially the risks and rewards of ownership of an asset are transferred to the lessee, the lessee must report the lease as a finance lease. Classification is dependent on the substance of the transaction rather than the form of the contract. Under NZIFRS ESR has recognised a number of existing leases as finance leases (rather than operating leases), resulting in the recognition of finance lease liabilities, and lease assets in property, plant and equipment.

As at 1 July 2006 the finance lease liability recognised was $750,000 and the lease assets recognised were $726,000. As at 30 June 2007 the finance lease liability recognised was $495,000 and the lease assets recognised were $461,000.

# Directory

Directors

Ian Wilson (Chairman)
Dr Garth Carnaby
Professor Stephen Chambers
Dr Judith Johnston
Sharon Opai
Dr Mere Roberts

Chief Executive Officer

Dr John Hay

Senior Managers

| | |
|---|---|
| Wayne Chisnall | General Manager, Forensic |
| Jocelyn Grainger | 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

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Banker

The National Bank of New Zealand Limited

Solicitor

Kensington Swan