

ESR half-year report

31 December 2023



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ESR's half-year scorecard

There are 16 performance measures set out in ESR's current Statement of Corporate Intent (2023-2028).

Below is a summary of these results as at 31 December 2023:

PERFORMANCE MEASURE	Measure Purpose and Intention	FY24 TARGET	Reporting frequency	Half-year progress result	Commentary
Strategic Objective: Reshaping ESR Science to provide integrated thought leadership in the health, environment, and justice sectors: Establish and embed methods and systems that enable a pipeline of innovation science ideas to deliver services and products for customers.					
New measure: Percentage increase in SSIF investment in multi-disciplinary, cross-platform research projects from FY23 baseline	This measure demonstrates ESR's ability to take a holistic approach to solving problems by integrating innovation and thought leadership to detect issues, connect at the right time and protect communities. It also demonstrates ESR's ability to move from siloed thinking to greater collaboration internally and externally	≥10%	Reported annually	Achieved	There has been a 10.8% SSIF investment in multi-disciplinary, cross-platform research projects from FY23 baseline
New measure: Establish an integrated enterprise data science practice approach across ESR's science domains by 30 June 2024	An integrated data science practice and approach are critical for delivering fresh insights, closing knowledge gaps and creating opportunities for new research that will grow research excellence	Achieved	Reported annually	On track	ESR is continuing to progress this initiative and is on track deliver this by 30 June 2024
New measure: Number of international proposals submitted and accepted	This measure demonstrates ESR's collaboration and raises awareness of ESR on the international stage. The ability to successfully secure international funding for research will increase impact and develop transformative science.	≥3	Reported annually	Being monitored	ESR's focus is to develop processes to enable it to submit applications for the Horizons Europe funding. This will set in place the mechanisms to support bids in the future.
New measure: Overall success rate of external research bids	The ability to secure external funding is an indication of the quality and impact of ESR's research. Only the best applications are awarded funding. The success of this measure also indicates whether ESR's systems and processes adequately support ESR's scientists and science direction	≥15%	Reported annually	On track	ESR's bidding for funding from the Te Niwha platform was successful and we have submitted 4 Smart Ideas and 6 Research Programme Endeavour bids in the FY25 round.
Strategic Objective: Recognition as an exemplar of a thriving people-centred workplace					
New measure: Establish employee diversity baseline and monitor	This measure will help provide evidence that ESR is committed to being a fair and equitable employer by ensuring that biases are identified and eliminated in the workplace. It will also provide insights into whether ESR's D&I initiatives or work programme is delivering results. This measure will form part of a further suite of measures to be developed that will provide insights into diversity and equity, including pay equity measures.	Improving against the established baseline	Reported annually	On track	The dashboard is in place and reported quarterly to the People, Culture and Performance Committee of the ESR Board. Targetted initiatives to increase diversity will continue to be a focus within the ESR Kia Toipoto 2024 Action Plan.

PERFORMANCE MEASURE	Measure Purpose and Intention	FY24 TARGET	Reporting frequency	Half-year progress result	Commentary
New measure: ESR's gender pay gap continues to reduce against the 2022 baseline of 15.6%	The purpose of this measure is to track the reduction in the gender pay gap as outlined in ESR's Kia Toipoto Action Plan	Improving against the established baseline	Reported annually	On track	The introduction of the new Remuneration Framework has reduced the gender pay gap to 14.4%. Further analysis will be completed in preparation for finalising the ESR 2024 Kia Toipoto Action Plan.
New measure: Percentage of ESR's current permanent staff who have participated in a minimum of two foundational cultural capability courses	The purpose of this measure is to equip ESR's staff to be successful in developing culturally respectful and accountable practices.	≥55%	Reported annually	Being monitored	Current permanent staff have participated in two foundational courses is 44.30%. A review of ESR's cultural capability training is planned for FY24 which will look to refresh the current offering.
New measure: ESR continuously improves against the annual WorkSafe New Zealand SafePlus audit	This measure tracks ESR's health, safety and wellbeing maturity as assessed by an independent audit	Establish baseline	Reported annually	On track	ESR's focus has been the development and approval of the HSW Laboratory Manual, HSW Operational Risk Framework. The Engagement and Participation Programme which is on track to be completed by the end of FY24.

Strategic Objective: Growing sustainable partnerships to provide innovative community focused science solutions / commercialisation

New measure: The portfolio of drugs able to be accurately detected by Lumi™ analysis increases	This measure ensures that the Lumi™ product increases its usefulness and commercial appeal through broader application of use	≥3	Reported annually	On track	Work is currently underway on the development of detection capabilities for two additional drug targets (heroin and ketamine).
New measure: The accuracy rate of drugs detected by Lumi™ analysis increases through six monthly performance updates	This measure ensures that the Lumi™ product increases its usefulness and commercial appeal through increased accuracy	2 improved performance updates delivered to customers	Reported annually	On track	An update to the current machine learning model is in development and will be released into production in the third quarter FY24 It is likely the next update will be at the end of FY24.

Strategic Objective: To deliver greater impact with and for Māori and to be a leading Te Tiriti-partnered CRI: Māori-led research programmes and increasing Māori collaboration and partnership

Percentage increase from FY2022 baseline in the number of co-designed research projects with iwi	The purpose of this measure is to demonstrate growth in ESR's investment in a pipeline of impactful Māori research.	≥ 20%	Reported annually	Achieved	There has been a 39% increase from FY2022 baseline in the number of co-designed research projects with iwi
Percentage SSIF funding allocated to projects led by / co-designed with Māori	This SSIF platform measure's purpose is to demonstrate growth in ESR's investment in a pipeline of mātauranga Māori research.	≥ 20%	Reported annually	Achieved	There are 39% of SSIF funding projects that are led or co-designed with Māori.

PERFORMANCE MEASURE	Measure Purpose and Intention	FY24 TARGET	Reporting frequency	Half-year progress result	Commentary
Percentage satisfaction of key partners with our approach and delivery of the He Wai Māpuna programme	This measure shows that a pipeline of co-designed research programmes and relationships are developed to achieve enduring partnerships.	≥80%	Reported annually	Reported annually	This measure will be reported at the end of the financial year.
Strategic Objective: Strengthening business systems and processes to increase efficiency with regards to security, governance, and sustainable activities					
New measure: ESR's cyber security maturing rating is maintained or enhanced	This is an enduring measure. ESR assesses its cyber security maturity rating across five areas: Identify, Protect, Detect, Respond and Recover. Quarterly assessments are provided to the Board. The cyber security rating provided is the difference between two ratings at a point in time. The average percentage increase (or decrease) across the five criteria is reported as the score.	Improving or maintained	Reported annually	On track	We assess ESR's cyber security maturity rating every quarter. ESR's cyber security maturity continues to improve across all five areas we assess against.
New measure: ESR's project governance and management practices are enhanced	This measure will help give ESR insight into how project management and governance practices are maturing as assessed against best practice.	Establish baseline	Reported annually	On track	An external review of ESR project governance practice was completed in FY23 and assessed ESR's maturity at Level 1. The final report outlined 12 recommendations for increased project governance maturity. Of those, 6 have been closed with the remainder in progress.
New measure: ESR's total corporate emissions of CO2e are effectively managed	The purpose of this measure is to track ESR's total CO2 e over time to identify whether ESR's sustainability initiatives are making a difference	Not increasing	Reported annually	On track	Several initiatives are under way to support ESR's goal of reducing carbon emissions. ESR has completed the Toitū Carbon reduction programme audit, and received a Toitū Carbon reduce Certification.

Financial statements

For the six months ended 31 December 2023

Key Financial Performance Measures

	6 months ended 31 December 2023 Actual	Year ended 30 June 2024 Plan	Year ended 30 June 2023 Actual	Year ended 30 June 2022 Actual
Revenue	\$60m	\$131m	\$124m	\$111m
Operating margin <i>Earnings before interest, tax, depreciation and amortisation (EBITDA) as a percentage of revenue</i>	3.3%	6.2%	5.2%	6.8%
Return on equity <i>Net profit after taxation as a percentage of equity</i>	-0.3%	2.3%	0.1%	0.8%
Return on assets <i>Earnings before interest and tax as a percentage of total assets</i>	-2.0%	-1.5%	-0.5%	0.5%
Acid test ratio <i>Current assets excluding prepayments and inventory to current liabilities excluding deferred revenue</i>	2.0	2.2	2.7	2.3
Equity ratio <i>Equity as a percentage of total assets</i>	56.3%	66.0%	56.6%	63.1%
Gearing <i>Debt (including finance lease liabilities) as a percentage of debt and equity</i>	5.4%	4.4%	5.7%	6.0%
Annualised operating margin per FTE <i>Earnings before interest, tax, depreciation and amortisation, per average full time equivalent employee for the year</i>	\$7,114	\$14,800	\$11,300	\$14,300

**Statement of Profit or Loss and Other Comprehensive Income
for the six months ended 31 December 2023**

Group	Note	Group unaudited 6 months ended 31 December 2023 \$'000s	Group audited 12 months ended 30 June 2023 \$'000s	Group unaudited 6 months ended 31 December 2022 \$'000s
Operating Revenue				
Operating Revenue	2	53,847	109,574	54,697
Strategic science investment funding		6,361	13,996	5,794
		60,208	123,570	60,491
Operating expenses				
Scientific materials		4,717	10,873	5,339
Subcontracting, commissions and royalties		6,879	15,435	7,172
Personnel		36,062	68,989	34,156
Depreciation and amortisation		3,096	6,926	3,455
Other		10,551	21,898	11,211
		61,305	124,121	61,333
Operating profit / (loss)		(1,097)	(551)	(842)
Interest income		1,029	1,224	506
Interest expense	3	(68)	(150)	(75)
		961	1,074	431
Profit / (loss) before income tax expense		(136)	523	(411)
Income tax (benefit) / expense	3	(39)	439	(118)
Profit / (loss) for the period attributable to the Shareholder of the parent		(97)	84	(293)
Other comprehensive income		-	-	-
Total profit or loss and other comprehensive income for the period attributable to the shareholder of the parent		(97)	84	(293)

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

**Statement of Changes in Equity
for the six months ended 31 December 2023**

Group	Share capital \$'000s	Retained earnings \$'000s	Total \$'000s
Balance at 1 July 2022	8,494	52,128	60,622
Profit / (loss) for the period	-	(293)	(293)
Other comprehensive income	-	-	-
Total comprehensive income	-	(293)	(293)
Transactions with owners:			
Dividend	-	-	-
Balance at 31 December 2022	8,494	51,835	60,329
Balance at 1 July 2023	8,494	52,212	60,706
Profit / (loss) for the period	-	(97)	(97)
Other comprehensive income	-	-	-
Total comprehensive income	-	(97)	(97)
Transactions with owners:			
Dividend	-	-	-
Balance at 31 December 2023	8,494	52,115	60,609

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

**Statement of Financial Position
as at 31 December 2023**

	Group unaudited 6 months ended 31 December 2023 \$'000s	Group audited 12 months ended 30 June 2023 \$'000s	Group unaudited 6 months ended 31 December 2022 \$'000s
Non-current assets			
Property, plant and equipment	36,527	35,809	30,779
Intangible assets	4,552	4,627	4,811
Right-of-use-assets	3,342	3,563	3,643
Investment cash	2,000	2,000	500
Other investments	30	30	30
Deferred taxation	1,509	1,509	1,743
	47,960	47,538	41,506
Current assets			
Cash and cash equivalents	12,023	12,546	8,982
Investment cash	29,624	28,500	28,500
Trade and other receivables	13,037	11,843	12,900
Contract assets	1,342	4,479	2,938
Income tax receivable	2,395	1,211	667
Inventories – scientific materials and consumables	1,060	1,060	1,035
Derivative financial instruments	163	28	125
	59,644	59,667	55,147
Current liabilities			
Trade and other payables	9,109	13,260	12,259
Contract liabilities	10,382	9,371	9,361
Government grants received in advance	15,851	10,942	2,961
Employee benefits	6,343	7,305	6,118
Lease liabilities	405	400	350
	42,090	41,278	31,049
Net current assets	17,554	18,389	24,098
Non-current liabilities			
Employee benefits	1,849	1,962	1,913
Lease liabilities	3,056	3,259	3,362
	4,905	5,221	5,275
Net assets	60,609	60,706	60,329
Equity			
Share capital	8,494	8,494	8,494
Retained earnings	52,115	52,212	51,835
Total equity	60,609	60,706	60,329

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows
for the six months ended 31 December 2023

	Note	Group unaudited 6 months ended 31 December 2023 \$'000s	Group audited 12 months ended 30 June 2023 \$'000s	Group unaudited 6 months ended 31 December 2022 \$'000s
Cash flows from / (used in) operating activities				
<i>Cash was provided from:</i>				
Customers		68,906	133,910	64,660
Interest received		1,065	902	265
		69,971	134,812	64,925
<i>Cash was applied to:</i>				
Suppliers and employees		(63,751)	(117,106)	(61,488)
Interest paid		-	(4)	-
Income tax paid		(1,145)	(2,218)	(1,351)
		(64,896)	(119,328)	(62,839)
Net cash inflow from operating activities	4	5,075	15,484	2,086
Cash flows from / (used in) investing activities				
<i>Cash was provided from:</i>				
Term deposit maturities		16,780	33,523	15,773
		16,780	33,523	15,773
<i>Cash was applied to:</i>				
Purchase of property, plant and equipment		(3,504)	(10,270)	(3,009)
Purchase of intangible assets		(703)	(2,673)	(1,901)
Investment in term deposits		(17,904)	(25,000)	(5,750)
		(22,111)	(37,943)	(10,660)
Net cash (outflow) / inflow from investing activities		(5,331)	(4,420)	5,113
Cash flows from / (used in) financing activities				
<i>Cash was applied to:</i>				
Repayment of lease liabilities		(267)	(555)	(254)
Net cash outflow from financing activities		(267)	(555)	(254)
Net (decrease) / increase in cash held		(523)	10,509	6,945
Cash and cash equivalents at the beginning of the period		12,546	2,037	2,037
Cash and cash equivalents at the end of the period		12,023	12,546	8,982

The accompanying notes form an integral part of these financial statements

Notes to the financial statements

1. Statement of significant accounting policies

Reporting entity

These financial statements of the Institute of Environmental Science and Research Limited and its subsidiaries ('ESR' and the 'Group') are for the six months ended 31 December 2023.

ESR is a Crown Entity incorporated and based in New Zealand. Its registered office is at 34 Kenepuru Drive, Porirua.

ESR is a Crown research institute that provides specialist scientific services and research, particularly to the public health, food safety, security and justice systems and the environmental sector.

Statement of compliance

The interim financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, the Crown Research Institutes Act 1992, the Companies Act 1993 and the Financial Reporting Act 2013.

Basis of preparation of half-yearly report

The condensed consolidated interim financial report for the half-year reporting period ended 31 December 2023 has been prepared in accordance with Accounting Standard IAS 34 Interim Financial Reporting.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2023.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax.

The financial statements are prepared on the basis of historical cost, except for financial instruments and long service leave.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

The results for the six months ended 31 December 2023 and comparative period figures presented in the financial statements are unaudited.

Changes in accounting policies

The accounting policies set out in the 2023 Annual Report have been applied consistently to all the periods in these interim financial statements. There have been no changes in accounting policies from those applied in ESR's 2023 Annual Report. Where necessary, comparative figures have been reclassified for consistency with current year disclosures.

2. Revenue

a) Total operating revenue

	Group unaudited 6 months ended 31 December 2023 \$'000s	Group audited 12 months ended 30 June 2023 \$'000s	Group unaudited 6 months ended 31 December 2022 \$'000s
Revenue from contracts with customers	53,847	109,574	54,697
Total operating revenue	53,847	109,574	54,697

b) Revenue from contracts with customers

i) Disaggregated revenue information

Group – 6 months ended 31 December 2023	Domestic \$'000s	International \$'000s	Total \$'000s
Core government contracts	40,730	-	40,730
Research	2,096	1,982	4,078
Commercial products and services	2,274	6,765	9,039
	45,100	8,747	53,847

Group – year ended 30 June 2023	Domestic \$'000s	International \$'000s	Total \$'000s
Core government contracts	76,530	-	76,530
Research	7,775	4,116	11,891
Commercial products and services	6,860	14,293	21,153
	91,165	18,409	109,574

Group – 6 months ended 31 December 2022	Domestic \$'000s	International \$'000s	Total \$'000s
Core government contracts	38,473	-	38,473
Research	2,962	2,522	5,484
Commercial products and services	3,446	7,294	10,740
	44,881	9,816	54,697

Note that the overall research output of the Group includes activity funded by \$6,361,000 (2022: \$5,794,000) of Strategic Science Investment Funding. This funding is accounted for as a government grant and not included in the table above.

3. Other profit and loss information

a) Interest expense

	Group unaudited 6 months ended 31 December 2023 \$'000s	Group audited 12 months ended 30 June 2023 \$'000s	Group unaudited 6 months ended 31 December 2022 \$'000s
Lease liability interest	68	148	75
Total interest expense	68	148	75

b) Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months to 31 December 2023 is 29%, compared to 29% for the six months ended 31 December 2022.

4. Reconciliation of profit / (loss) after taxation to cash flows from operating activities

	Group unaudited 6 months ended 31 December 2023 \$'000s	Group audited 12 months ended 30 June 2023 \$'000s	Group unaudited 6 months ended 31 December 2022 \$'000s
Profit / (loss) for the period after taxation	(97)	84	(293)
Non-cash items:			
Depreciation and amortisation expense	3,096	6,926	3,455
Depreciation on right-of-use assets	222	410	201
Increase / (decrease) in provision for expected credit losses	29	(42)	4
Increase in deferred tax asset	-	234	-
Fair value gain on derivative financial instruments	(134)	(43)	(140)
Other non-cash items	(1)	1	7
	3,212	7,486	3,527
Changes in working capital:			
Decrease / (increase) in trade and other receivables and contract assets	1,914	(2,222)	(1,784)
Increase in inventories	-	(25)	-
(Decrease) / increase in trade and other payables and contract liabilities	(3,140)	412	1,456
Increase in Government grants received in advance	4,909	10,942	-
(Increase) in income tax receivable	(1,184)	(2,013)	(1,469)
(Decrease) / increase in employee benefits	(1,075)	677	347
	1,424	7,771	(1,450)
Items classified as investing and financing activities:			
Loss on disposal of property, plant and equipment	4	39	8
Decrease / (increase) in payables related to property, plant and equipment	464	(44)	219
Finance charge on leases	68	148	75
	536	143	302
Net cash inflow from operating activities	5,075	15,484	2,086

5. Capital commitments

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

	Group unaudited 6 months ended 31 December 2023 \$'000s	Group audited 12 months ended 30 June 2023 \$'000s	Group unaudited 6 months ended 31 December 2022 \$'000s
Property, plant and equipment	613	1,077	3,557
Intangible assets - software	150	163	148
Total capital commitments	763	1,240	3,705

6. Contingent liabilities

The directors are satisfied that there are no other claims outstanding that would have a material impact on ESR's financial position as at 31 December 2023 (30 June 2023: nil).

7. Events subsequent to balance date

There were no events subsequent to reporting date that require disclosure in the financial statements.

Governance

Key Management Personnel Remuneration

Key management personnel are those with responsibility and authority for planning, directing and controlling the activities of the Group. Key management personnel of the Group are considered to be the directors, Chief Executive and senior management.

Chief Executive's remuneration

The remuneration of our Chief Executive is reviewed annually by the Board and is determined by factors such as advice from external remuneration specialists, including job sizing and market relativity exercises. These are also undertaken on a regular basis and drawn on to inform the determination of salary package.

Chief executive remuneration summary 2020 – 2024

	Financial year	Salary	Benefits ^a	Total
Peter Lennox	HY2024	\$313,004	\$9,740	\$322,744
	2023	\$570,187	\$17,571	\$587,758
	2022	\$504,858	\$15,594	\$520,452
	2021	\$454,372	\$14,048	\$468,420
Keith McLea	2021	\$134,961	\$19	\$134,980
	2020	\$508,210	\$533	\$508,743

^a Benefits comprise insurance cover and employer KiwiSaver contributions.

Senior management remuneration

The total combined remuneration of our senior management team (excluding the Chief Executive's remuneration) from 2020 – 2024.

Financial year	Salary	Benefits ^a	Total
HY2024	\$1,427,209	\$44,411	\$1,471,620
2023	\$2,368,883	\$72,997	\$2,441,880
2022	\$2,223,603	\$68,629	\$2,292,232
2021	\$2,104,372	\$57,595	\$2,161,967
2020	\$1,463,900	\$42,189	\$1,506,089

^a Benefits comprise insurance and employer KiwiSaver contributions.

Directory

ESR's science centres are located in Auckland, Wallaceville and Kenepuru (Wellington region) and Christchurch

