
ESR HALF-YEARLY REPORT

for the six months ended
31 December 2013



MAKING OUR WORLD
A BETTER, SAFER PLACE
THROUGH SCIENCE

www.esr.cri.nz

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Auditor

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Banker

The ANZ Bank of New Zealand Limited

Solicitor

Buddle Findlay



ESR's purpose is to deliver enhanced scientific and research services to the public health, food safety, security and justice systems, and the environmental sector to improve the safety and contribute to the economic, environmental and social wellbeing of people and communities in New Zealand.

Chairperson's report

The half-yearly period has produced some notable highlights as ESR strives to become a higher performing centre of excellence to the benefit of all New Zealanders.

A significant agreement was signed with the Ministry of Health which not only confirmed ESR as the Ministry's preferred supplier of scientific services but also increased both the dollar value and the length of the previous contract. The contract also encompasses an innovative strategic component which will provide new opportunities for ESR to drive and lead initiatives.

ESR's growing contribution to food safety in New Zealand and the protection of our export markets was evidenced by participation in the Government's Whey Protein Inquiry and a professional service agreement being signed with Fonterra.

The SHIVERS project, funded by Centers for Disease Control and Prevention in America (CDC), enhanced its global standing as a gold standard collaboration with the hosting of another successful science meeting. SHIVERS data contributed to the SARI case definition published in the World Health Organization's Global Epidemiological Surveillance Standards for Influenza.

ESR is also commercialising new technologies. Following two successful workshops held offshore, the first sale under commercial terms was made into Canada of the DNA interpretative software STRmix™. Further marketing activity is planned, which includes participation at major forensic conferences and training sessions for interested parties. This project, together with another (Rapid Point Cloud Viewer), is being commercialised with the assistance of KiwiNet and the Pre-Seed Accelerator Fund (PSAF). Rapid Point Cloud Viewer is software that will allow users to provide photo-realistic images from 3D laser scans in less than an hour without the need for specialist graphics expertise. Market research indicates that the software has applications beyond forensics. A version of the software will be ready for market testing by May 2014.

ESR renewed its memorandum of understanding with New Zealand Customs and is working with them on a number of initiatives in the capacity of being Customs' scientific adviser. One area of work is the development of a new 'forward' screening

lab at Auckland Airport which will go live in August 2014. This is the first of its kind in New Zealand and it will help to detect illicit drugs at the border. ESR is also working with Customs and Police on a drug signature profiling project which, amongst other outcomes, will help to inform the Government's Methamphetamine Action Plan. Both projects are funded by proceeds of the Criminal Proceeds (Recovery) Act.

Field trials of a biocontrol cocktail (containing bacteriophages) aimed at reducing the number of pathogenic *E.coli* on cattle hides have been successfully concluded. In conjunction with the Meat Industry Association and KiwiNet, ESR is developing a marketable product for use with the meat industry.

The science behind this progress and ESR's future workload all contribute to the economic, environmental and social wellbeing of people and communities in New Zealand and around the world.

The results for the six months ended 31 December 2013 is a loss of \$649k after tax. This is \$588k lower than budget. Revenue is \$1.7m above last year and \$1.7m below budget.

In the six-month period, we have experienced reduced revenue due to timing of core funding (\$573k) which will reverse in the full year, unsuccessful and delayed research funding (\$394k) and reduced commercial revenue (\$797k). These revenue reductions are against a substantively fixed operational cost base and have been partially offset by the reduced corporate costs (\$628k) during the period.

The expectation is that full-year financial performance will be below budget driven by year to date performance but with a better second half. Forecast revenue of \$64.4m is \$218k above budget and forecast net profit is \$630k which is \$431k below budget.

The Board has approved the full-year forecast revenue acknowledging the three key risk areas: annual leave (\$660k), delivery of uplift in revenue (\$1.2m) and controlling costs.

A handwritten signature in blue ink, appearing to read 'Susan Macken', is written over a light blue horizontal line.

Dr Susan Macken (Chair)

Key financial performance measures

	6 months ended 31 Dec 2013 Actual	Year ended 30 June 2014 Plan	Year ended 30 June 2013 Actual	Year ended 30 June 2012 Actual
Revenue, \$m	30.3	64.1	62.1	58.6
Operating margin %	6.6	11.8	11.7	13.0
Return (NPAT**) on equity, %	(1.7)	2.7	3.3	6.5
Return (EBIT*) on assets, %	(1.6)	2.6	2.9	4.6
Acid test, ratio	1.2	0.9	1.4	1.5
Equity ratio, %	71.0	73.7	66.4	65.2
Gearing, %	1.0	–	1.4	1.2
Interest cover	–	–	–	–
Annualised Operating margin per FTE	10,607	18,832	19,073	20,557

* Earnings (annualised surplus) before taxation and interest

** Net profit (annualised surplus) after taxation

Statement of comprehensive income

for the six months ended 31 December 2013

	Group unaudited 6 months ended 31 Dec 2013 \$'000s	Group audited 12 months ended 30 June 2013 \$'000s	Group unaudited 6 months ended 31 Dec 2012 \$'000s
Operating revenue			
Revenue from rendering of services	26,943	53,892	26,303
Core funding	3,311	8,222	3,553
	30,254	62,114	29,856
Operating expenses			
Scientific materials	(3,011)	(6,204)	(3,054)
Subcontracting expense	(2,672)	(6,065)	(2,794)
Employee benefit expense	(16,672)	(31,128)	(15,691)
Depreciation and amortisation expense	(2,875)	(5,598)	(2,745)
Other expenses	(5,908)	(11,435)	(5,514)
	(31,138)	(60,430)	(29,798)
Operating profit	(884)	1,684	58
Finance income – interest income	50	166	119
Finance expense	(7)	(27)	(9)
Net finance income / (expense)	43	139	110
(Loss) / profit before income tax expense	(841)	1,823	168
Income tax expense	192	(561)	(84)
(Loss) / profit for the period attributable to the institute's shareholder	(649)	1,262	84
Other comprehensive income	–	–	–
Total profit or loss and other comprehensive income for the period attributable to the institute's shareholder	(649)	1,262	84

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

Statement of changes in equity

for the six months ended 31 December 2013

	Group unaudited share capital \$'000s	Group actual unaudited retained earnings \$'000s	Group actual unaudited total \$'000s
Balance at 1 July 2012	8,494	29,362	37,856
Profit for the period		84	84
Other comprehensive income	–	–	–
Total comprehensive income	–	84	84
Transactions with owners:			
Dividend	–	–	–
Balance at 31 December 2012	8,494	29,446	37,940
Balance at 1 July 2013	8,494	30,624	39,118
Loss for the period		(649)	(649)
Other comprehensive income	–	–	–
Total comprehensive income	–	(649)	(649)
Transactions with owners:			
Dividend	–	–	–
Balance at 31 December 2013	8,494	29,975	38,469

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

Statement of financial position

as at 31 December 2013

	Group unaudited 6 months ended 31 Dec 2013 \$'000s	Group audited 12 months ended 30 June 2013 \$'000s	Group unaudited 6 months ended 31 Dec 2012 \$'000s
Non-current assets			
Property, plant and equipment	32,868	33,911	33,181
Intangible assets	8,856	8,207	7,535
	41,724	42,118	40,716
Current assets			
Cash and cash equivalents	1,284	2,136	1,586
Trade and other receivables	9,530	11,855	11,423
Derivative financial instruments	92	–	3
Income tax receivable	388	20	60
Inventories – scientific materials and consumables	1,200	725	1,452
	12,494	14,736	14,524
Current liabilities			
Trade and other payables	8,092	9,843	9,552
Employee benefits	2,892	2,713	2,926
Finance lease liabilities	276	309	295
Derivative financial instruments	–	58	–
	11,260	12,923	12,773
Net current assets / (liabilities)	1,234	1,813	1,751
Non-current liabilities			
Employee benefits	921	1,138	1,144
Finance lease liabilities	120	237	297
Deferred taxation	3,448	3,438	3,086
	4,489	4,813	4,527
Net assets	38,469	39,118	37,940
Equity			
Share capital	8,494	8,494	8,494
Retained earnings	29,975	30,624	29,446
Total equity	38,469	39,118	37,940

Dr Susan Macken (Chair)

Ross Peat (Deputy Chair)

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

Statement of cash flows

for the six months ended 31 December 2013

	Note	Group unaudited 6 months ended 31 Dec 2013 \$'000s	Group audited 12 months ended 30 June 2013 \$'000s	Group unaudited 6 months ended 31 Dec 2012 \$'000s
Cash flows from / (used in) operating activities				
<i>Cash was provided from:</i>				
Customers		33,081	59,154	29,167
Interest received		50	202	136
		33,131	59,356	29,303
<i>Cash was applied to:</i>				
Suppliers and employees		(31,169)	(53,352)	(28,579)
Interest paid		(7)	(25)	(3)
Income tax paid		(176)	(723)	(637)
		(31,352)	(54,100)	(29,219)
Net cash inflow from operating activities	2	1,779	5,256	84
Cash flows from / (used in) investing activities				
<i>Cash was provided from:</i>				
Proceeds from sale of property, plant and equipment		–	–	–
		–	–	–
<i>Cash was applied to:</i>				
Purchase of property, plant and equipment		(1,169)	(6,766)	(4,241)
Purchase of intangible assets		(1,312)	(3,010)	(1,176)
Acquisition of business		–	(204)	(204)
		(2,481)	(9,980)	(5,621)
Net cash outflow from investing activities		(2,481)	(9,980)	(5,621)
Cash flows from / (used in) financing activities				
<i>Cash was provided from / (applied to):</i>				
Dividends paid		–	–	–
Repayment of finance lease liabilities		(150)	(372)	(109)
Net cash (outflow) / inflow from financing activities		(150)	(372)	(109)
Net (decrease) / increase in cash held		(852)	(5,096)	(5,646)
Cash and cash equivalents at the beginning of the period		2,136	7,232	7,232
Cash and cash equivalents at the end of the period		1,284	2,136	1,586

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 2013.

ESR is a Crown entity incorporated and domiciled in New Zealand. The address of its registered office is 34 Kenepuru Drive, Porirua.

ESR is a Crown research institute that provides specialist scientific services and research, particularly to the health and justice sectors. Its purpose is to deliver enhanced scientific and research services to the public health, food safety, security and justice systems, and the environmental sector to improve the safety and contribute to the economic, environmental and social wellbeing of people and communities in New Zealand.

Basis of preparation

The interim financial statements are Parent (ESR) and Group financial statements. The two subsidiaries of ESR are dormant non-trading entities; consequently there is no difference between the financial statements of the Group and those of the Parent.

These interim financial statements are prepared on the basis of historical cost as modified by the revaluation of derivative financial instruments.

These interim financial statements should be read in conjunction with the financial statements and the related notes included in ESR's annual report for the year ended 30 June 2013 (2013 Annual Report).

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

The accounting policies set out in the 2013 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 2013 Annual Report. Where necessary, comparative figures have been reclassified for consistency with current year disclosures.

Statement of compliance

These interim financial statements for the six months ended 31 December 2013 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, the New Zealand equivalent to International Accounting Standard 34 Interim Financial Reporting issued by the New Zealand Institute of Chartered Accountants, and other applicable financial reporting standards, as appropriate for profit-oriented entities.

The financial statements have also 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 1993.

2. RECONCILIATION OF (LOSS) / PROFIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

	Group unaudited 6 months ended 31 Dec 2013 \$'000s	Group audited 12 months ended 30 June 2013 \$'000s	Group unaudited 6 months ended 31 Dec 2012 \$'000s
(Loss) / profit for the period	(649)	1,262	84
Non-cash items:			
Depreciation and amortisation	2,875	5,597	2,745
Fair value loss on financial assets at fair value through profit and loss	–	57	–
Bad debts written off	–	15	–
Increase / (decrease) in deferred taxation liability	10	231	(169)
Foreign exchange (gain) / loss	(64)	12	(31)
Fair value (gain) / loss on derivatives	(92)	58	(3)
	2,729	5,970	2,542
Impact of changes in investing activities:			
Loss / (gain) on sale of assets	–	–	–
	–	–	–
Financing			
Dividend payable	–	–	–
Finance charge on leases	7	16	3
	7	16	3
Changes in working capital:			
Decrease in trade and other receivables	2,233	1,243	1,614
(Increase) in income tax receivable	(368)	(347)	(385)
(Increase) / decrease in inventories	(475)	517	(212)
(Decrease) / increase in employment benefits	(38)	14	233
Increase in financial liabilities	–	86	–
(Decrease) in trade and other payables	(1,660)	(3,505)	(3,795)
	(308)	(1,992)	(2,545)
Net cash inflow / (outflow) from operating activities	1,779	5,256	84

3. 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 Dec 2013 \$'000s	Group audited 12 months ended 30 June 2013 \$'000s	Group unaudited 6 months ended 31 Dec 2012 \$'000s
Property, plant and equipment	218	565	1337
Intangibles – software	386	–	209
Total capital commitments	604	565	1,546

4. CONTINGENT LIABILITIES

There are no known material contingent liabilities at 31 December 2013 (2012: nil).

5. EVENTS SUBSEQUENT TO BALANCE DATE

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



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