



**STATEMENT OF
CORPORATE INTENT
2018-2021**



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INTRODUCTION

This Statement of Corporate Intent (SCI) is applicable to AsureQuality Limited (AsureQuality).

This SCI is submitted in accordance with Section 14 of the State-Owned Enterprises Act 1986 (the Act). It sets out the overall intentions and objectives for AsureQuality (and subsidiary companies) for the financial year commencing 1 July 2018 and the succeeding two financial years.

The Board of Directors (Board) of AsureQuality is accountable to the shareholding Ministers in the manner set out in the Act.

All decisions relating to the operation of AsureQuality shall be made by or pursuant to the authority of the Board in accordance with this SCI.



WHO WE ARE

AsureQuality is a specialist provider of food assurance services to customers operating across the food supply chain in NZ and other global locations.

OUR PURPOSE

**TOGETHER WE
BUILD AND PROTECT
CONSUMER CONFIDENCE**

OUR VISION

**GLOBAL EXPERTS
IN FOOD ASSURANCE**

OUR VALUES



**STRONGER
TOGETHER**



**DO THE
RIGHT THING**



**EXCEED
EXPECTATIONS**



**TAKE
THE LEAD**

OUR PEOPLE

There are more than 1,700 people in our business, based across New Zealand, Australia and Singapore.

We have a diverse workforce with 60 different nationalities represented across the business.

We have a spread of ages across multiple generations with 37% aged 38 – 53 years and 28% are 54 years and over.

Gender statistics show a higher proportion of female staff in Testing Services while Inspection & Certification attracts more males. Over total staff 55% are female and 45% male.

Most of our people are full-time employees based in frontline service delivery roles.



WHAT WE DO

With extensive domestic and international accreditations, AsureQuality provides a range of specialist food assurance services covering the entire food supply chain:



FOOD & CONTAMINANT TESTING

Testing and analysis against regulatory and retailer standards for pathogens, toxins, allergens, chemical residues, genetically modified organisms and nutritional information.

Seed testing and certification for arable, dairy, livestock farming and export.

Plant and pest taxonomy, border control and pathology services

Proficiency testing, reference materials and related services (Global Proficiency)



INSPECTION AND CERTIFICATION

Independent audit, inspection, verification and certification against domestic and international regulatory and retailer standards.

Veterinary and field technician services including; farm assurance, dairy farm assessment, sample collection, TB testing and related disease management.

Ante-mortem and post-mortem meat inspection.



OTHER SPECIALIST SERVICES

Biosecurity readiness, capability, incursion response and surveillance services provided under agreement with NZ's Ministry for Primary Industries (MPI).

Contract manufacturing of diagnostic products and distribution of specialist veterinary test kits for use in disease management.

Industry training to meet food safety & quality requirements.

Product assurance marks, such as AQ Assured and AQ Certified that provide independent evidence and verification of food product features, claims or supply chain authenticity.

Technical insight services to help customers improve food safety & quality performance in their business; covering risk management, supplier performance & development, regulatory support, culture development and crisis management.



WHERE WE OPERATE

Most of AsureQuality's business is focussed on core markets of New Zealand and Australia, and particularly across the dairy and livestock & meat industries. As well as providing services from New Zealand and Australia, AsureQuality has a small, but growing presence in other targeted international markets.

SOUTHEAST ASIA

We provide testing services from our AsureQuality Singapore laboratory to customers located across the region, including several multi-national dairy companies.

NEW ZEALAND

We are the leading provider of food assurance services to the NZ food & agriculture industries, with particular strength in dairy and livestock & meat.

We also provide services to several international customers, either directly or in support of our teams in market as required.

AUSTRALIA

We provide testing, inspection & certification services through our joint venture with Bureau Veritas. Together we own DTS Food Assurance, the leading service provider to Australian agri-food industries, with laboratories in Melbourne, Sydney, Brisbane and Perth.

We also have AsureQuality facilities in Melbourne, where our Diagnostics business and a Global Proficiency office is located.



OUR STRATEGIC PRIORITIES

GOAL

Transforming AsureQuality toward higher value, technology-led analysis, insights and assurance across the supply chain.

PRIORITIES

Having highly motivated, performance driven teams

Creating alignment behind a 'one-AQ' approach, we will focus on driving performance with clear accountabilities, open communication and trust.

Doing the basics well, first and foremost

Before doing anything else we will focus on delivering a consistently high standard of service and customer experience; supported by efficient processes, systems & technology. This will be our primary focus during 2019.

Partnering to deliver higher value services

We will invest in opportunities to provide analytics, advisory and assurance based services that customers value more and deliver higher margins for AsureQuality; making better use of science & technology and partnerships.

WHAT WE WILL DO TO DRIVE CHANGE

Having highly motivated, performance driven teams

Safety first culture.

Simple and open communication: 'one-AQ'.

Strengthen our commercial and technical capabilities.

Doing the basics well, first and foremost

Service delivery excellence; in full, on time, right first time.

Provide an outstanding customer experience.

Enhance core processes, systems & technology.

Partnering to deliver higher value services

Develop strong partnerships with our most valued customers.

Invest in new high-margin services & sectors that leverage science & technology.

Grow with partners in international markets where we have an advantage.

HOW WE WILL MEASURE CHANGE

Lost Time Injuries

Engagement scores

Capability depth

Service efficiency

Customer complaints

Market share

Cost efficiency

Customer satisfaction

Gross margin

New services revenue

International growth

PERFORMANCE TARGETS

Total company financial and non-financial performance targets for 2019-2021 are:

YEAR ENDING 30 JUNE	2019	2020	2021
FINANCIAL PERFORMANCE			
Revenue	\$183.2m	\$178.4m	\$184.3m
Earnings Before Interest and Tax (EBIT)	\$13.8m	\$16.7m	\$18.8m
Net Profit After Tax (NPAT)	\$8.7m	\$10.2m	\$11.8m
Net Cash Flow from Operating Activities	\$14.6m	\$20.2m	\$20.6m
KEY RATIOS			
Total Shareholder Return	2%	5%	5%
Dividend Yield	2%	5%	5%
Dividend Payout	42%	62%	61%
Return on Equity	15%	17%	19%
Return on Capital Employed	18%	21%	24%
Operating Margin	11%	13%	14%
Gearing Ratio *	32%	38%	35%
Interest Cover	15	10	11
Solvency	1.4	1.4	1.4
NON-FINANCIAL PERFORMANCE			
Staff Turnover Rate	<12%	<12%	<12%
Total Recordable Injury Frequency Rate **	<4.9	<4.7	<4.5
Critical Programme Audit Failures	Nil	Nil	Nil
Critical Facility Audit Failures	Nil	Nil	Nil

* Note that NZ IFRS 16 has been applied from 2020 onwards. The application of this standard has increased the relative gearing ratio by 10% from 2020 onwards.

** The Total Recordable Injury Frequency Rate was previously calculated on 1,000,000 hours, this has been changed to 200,000 hours for benchmarking purposes.

RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

AsureQuality's targets for the ratio of Shareholders' Funds to Total Assets are:

YEAR ENDING 30 JUNE	2019	2020	2021
Shareholders Funds	\$59.4m	\$60.9m	\$64.1m
Total Assets	\$118.7m	\$129.4m	\$131.6m
Shareholders Funds / Total Assets	50%	47%	49%

CAPITAL STRUCTURE AND DIVIDEND POLICY

CAPITAL STRUCTURE

An appropriate capital structure for AsureQuality will maximise the value of the business for the shareholder by enabling growth aspirations to be met, but also minimise the risk of financial distress. The capital structure deemed appropriate for AsureQuality was a long-term BBB credit rating agency benchmark. While the level of debt is only one factor in assessing a credit rating, a gearing ratio of 40% is generally viewed as commensurate with this credit rating.

AsureQuality's Board and management recognise the importance of managing all assets of the business effectively, including capital.

The Board will periodically review the Company's target capital structure and may amend the debt profile over time should circumstances require it.

DIVIDEND POLICY

The extent of funds available to pay dividends will be driven by AsureQuality's capital structure. Any distribution to AsureQuality's shareholder will be subject to meeting the solvency requirements of the Companies Act 1993 and will follow the processes and procedures generally adopted by directors of publicly listed companies.

In determining the level of funds to distribute as a dividend the Board will take into consideration the following:
The sustainable financial structure for the business:

- Prevailing economic conditions;
- AsureQuality's medium-term, fixed asset expenditure programme;
- AsureQuality's investment in new business opportunities;
- AsureQuality's working capital requirement; and
- AsureQuality's assessment of the competitive environment.

AsureQuality aims to pay two dividends each year. For the 2019 financial year it is expected there will be an interim dividend paid in February and a final dividend paid in September.

Subject to maintaining an appropriate capital structure and the above circumstances, AsureQuality will seek to ensure a consistent share of profit is returned to the shareholder through the payment of dividends. As such, the rate of dividend projected in the SCL is based on targeting consistent annual dividends at a ratio of 60% of Net Profit after Tax adjusted to exclude any fair value movements. AsureQuality recognises the shareholders desire for dividends and this ratio will be reviewed annually by the Board.

ACCOUNTING POLICIES

The consolidated financial statements presented are for the AsureQuality Limited Group ("AsureQuality" or "the Group") as at, and for the year ended 30 June 2019. The Group comprises AsureQuality Limited and its subsidiaries, and its investments in associates and joint arrangements.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 2013, and the State-Owned Enterprises Act 1986 and generally accepted accounting practice in New Zealand ('NZ GAAP') as appropriate to Tier 1 for-profit entities.

The detailed accounting policies applied in the preparation of the financial statements are consistent with the accounting policies disclosed in the June 2017 Annual Report, which can be found on our external website: <https://www.asurequality.com/about-us/annual-report/>

REPORTING

In accordance with the State-Owned Enterprises Act and the requirements of Shareholding Ministers, AsureQuality will provide the following information.

Within three months after the end of each financial year, an Annual Report including:

- Audited financial statements for the year;
- Notes to the financial statements including accounting policies; and
- A report from the Chair and CEO including a review of operations, changes, if any, to the nature and scope of the Company's activities, an assessment of performance against targets, comments on the outlook for the Company, and matters in relation to dividends.

Within two months after the end of each half-year, a report including:

- An abridged, unaudited statement of the Company's financial performance for the half-year; and
- A report from the Board on the Company's performance.

Within one month after the end of each intervening quarter, a report covering:

- Performance against targets for the preceding quarter;
- Forecasts of key financial and operating performance measures for the remaining quarters of the financial year as appropriate; and
- The reasons for material differences between actual and target performance.

In addition, the Company will provide Shareholding Ministers with a Business Plan and SCI each year.

The Company will also provide other information relating to the affairs of the Company as requested by Shareholding Ministers, in accordance with the provisions of the Act.

CONSULTATION ON SALE AND PURCHASE OF ASSETS

AsureQuality, or any of the subsidiaries it controls, may acquire or dispose of assets or shares in another business where this activity is consistent with the nature and scope of AsureQuality's business.

Where AsureQuality, or any of the subsidiaries it controls, intends to acquire or dispose of assets or shares, either by a single transaction or a series of transactions, with a book value in excess of 10% of AsureQuality's equity, consultation with Shareholding Ministers will be undertaken prior to completion of the transaction or transactions.

Where disposal of assets or shares with a book value in excess of 10% of AsureQuality's equity is contemplated, an assessment of market value of the assets or shares will be undertaken as part of the sale or disposal process.

COMPENSATION FROM THE CROWN

AsureQuality reserves the right, under Section 7 of the Act, to seek compensation from the Crown for the necessity to provide any service where AsureQuality is constrained from acting in a normal commercial manner. There are currently no requests for compensation from the Crown proposed by AsureQuality under Section 7 of the Act.

COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

Section 14 of the Act specifies that State-Owned Enterprises must include a current commercial valuation in its SCI that reflects the value of the Crown's investment in the company.

AsureQuality undertakes an independent valuation every year to estimate a current commercial valuation.

As at 30 June 2018 the Board's estimate of the commercial valuation of the Crown's investment in AsureQuality is \$181 million.

Key points about the manner in which this value was assessed are:

- The valuation was calculated as at 30 June 2018.
- The discounted cash flow (DCF) methodology was used to calculate a net present value (NPV) of projected future cash flows of AsureQuality, including all subsidiaries, on an after tax basis.
- The DCF/NPV was based on the nominal (i.e. not inflation adjusted) future cash flows set out in AsureQuality's 3 year business plan, with forward projections made for a total of five years.
- A discount rate of 9.2% was assumed.
- The current commercial value of the Crown's investment of \$181m (often referred to as the equity value) was calculated by taking the enterprise value of \$207m and deducting net debt of \$26m.

Other material factors that are relevant to the determination of this valuation are:

- The valuation was based on future projections.
 - The projections used in the valuation did not include new business opportunities identified by AsureQuality, where cash flows have a high degree of uncertainty.
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APPENDIX I: COMPARISON TO PREVIOUS PROJECTIONS

FINANCIAL PERFORMANCE TARGETS	PROJECTION 2019 (2017 SCI)	PROJECTION 2019 (2018 SCI)
Revenue	\$180.5m	\$183.2m
Earnings before interest and tax (EBIT)	\$14.6m	\$13.8m
Net profit after tax (NPAT)	\$9.6m	\$8.7m
Shareholders Funds	\$55.2m	\$59.4m
Total Assets	\$111.4m	\$118.7m
Return on Equity	18%	15%
EBIT margin	8%	8%
Operating margin	12%	11%

APPENDIX 2: PERFORMANCE TARGETS

FINANCIAL PERFORMANCE

The financial performance targets are accounting based measures of operating performance and financial resources.

KEY RATIOS

The key ratios are targets for operating performance and financial measures expressed in relative rather than absolute terms. This allows for easier comparison over time or with other businesses. A description of each ratio and the way it is calculated is shown below.

The Total Shareholder Return is the performance from an investor perspective incorporating dividends and investment growth. Calculation: (Change in commercial valuation plus dividends paid less equity injected) divided by beginning commercial valuation.

The Dividend Yield is the cash return to the shareholder. Calculation: Dividends paid divided by average commercial valuation.

The Dividend Payout is the proportion of net operating cash flow less an allowance for capital maintenance paid out as a dividend to the shareholder. Calculation: Dividends paid divided by (Net cash flow from operating activities less depreciation expense).

The Return on Equity indicates the payback on the funds the shareholder has invested in the company. Calculation: Net profit after tax divided by average equity.

The Return on Capital demonstrates the efficiency and profitability of a company's capital from both debt and equity sources. Calculation: EBIT adjusted for IFRS fair value movements divided by Average capital employed.

The EBIT Margin indicates the level of profitability of the business. Calculation: EBIT adjusted for IFRS fair value movements divided by revenue.

The Gearing Ratio is a measure of financial leverage and expresses the level of funds contributed by debt holders as a percentage of the total investment in the business. Calculation: Net debt divided by Net debt plus Equity.

The Interest Cover is the number of times that earnings can cover interest. Calculation: EBITDAF divided by Interest paid.

The Solvency measure indicates the ability of the company to pay its debts as they fall due. Calculation: Current assets divided by Current liabilities.

NON-FINANCIAL PERFORMANCE

AsureQuality is a provider of what can be generally described as conformity assessment services. The non-financial performance measures aim to measure factors which are integral to the successful delivery of these services in addition to the achievement of financial performance measures.

The Staff Turnover rate measures the percentage of total staff that leave the business over a 12 month period.

The Audit Failure measures are an indication of the level of compliance with the various standards that are applicable to AsureQuality.

The Total Injury Frequency Rate is a measure of staff health and safety.

APPENDIX 3: SUBSIDIARIES AND ASSOCIATED COMPANIES

The following provisions will apply to any subsidiary or associated company that AsureQuality has interests in.

AsureQuality will ensure at all times that:

- Control of the affairs of every subsidiary of AsureQuality is exercised by a majority of the directors appointed by AsureQuality;
- A majority of the directors of every subsidiary of AsureQuality are persons who are also directors or employees of AsureQuality or who have been approved by Shareholding Ministers for appointment as directors of the subsidiary; and
- Without the prior consent of Shareholding Ministers, neither AsureQuality or any subsidiary of AsureQuality shall sell or otherwise dispose of, whether by a single transaction or by any series of transactions and whether by a sale of assets or shares, the whole or any substantial part of the business or undertaking of AsureQuality and its subsidiaries (taken as a whole).

Should AsureQuality or its subsidiaries hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of AsureQuality), they will not sell or dispose of any shares in that company without first giving written notice to Shareholding Ministers of the intended disposal.

Note:

The terms “share”, “Shareholding Ministers”, and “subsidiary” have the same meaning as in Section 2 of the State-Owned Enterprises Act.

ASUREQUALITY

LEVEL 1, 7A PACIFIC RISE, MT WELLINGTON 1060
PRIVATE BAG 14 946, PANMURE, AUCKLAND 1741
TELEPHONE: +64 9 573 8000 FAX: +64 9 573 8001
WWW.ASUREQUALITY.COM

