

AsureQuality
Kaitiaki Kai

Statement of Corporate Intent

2023-24



Our Purpose

Our primary purpose is to help unlock and grow the value of Aotearoa's \$70+ billion food industry via the trust provided through AsureQuality assurance services.

New Zealand's food is recognised globally for its high standard of quality and safety and is well placed to be at the forefront of emerging demands of the global market and consumer.

Our end-to-end service and expertise across the value-chain is dedicated to upholding this reputation and supporting our farmers, growers and food producers to continue to be leaders in our changing food world.

Helping Aotearoa shape a better food world

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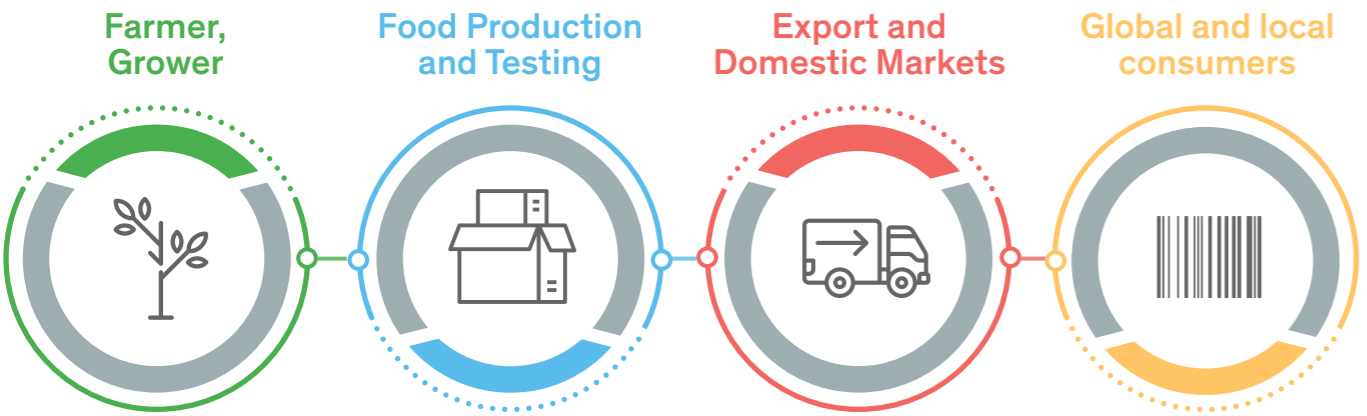
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Our Vision

The Integrated Food Assurance Partner

To accelerate the future of food assurance, we provide integrated, end-to-end services to ensure sustainable business growth. Our vision is enabled through the expertise and experience of our people, technology and data insights, and partnerships with our customers.



Our Strategy

Our Purpose
Why

Helping Aotearoa
shape a better food world

Our Strategic Vision
Where

The Integrated Food Assurance Partner

Vital to our customers, we provide trust in New Zealand food – unlocking and growing the value of our \$70+ billion food industry in an increasingly competitive world.

Our people are dynamic; operating with integrity – delivering strong sustainable growth by offering unique value adding services and insights that can only be provided by our integrated business.

Our Pillars
What

Service Excellence

- Service as promised
- Ease of doing business
- Fit for purpose systems and processes

Valued Insights & Expertise

- Enhanced access to technical knowledge
- Establish data basics and roadmap
- Customer decision support

New Assurance Models

- Technology-enabled assurance
- Integrated services
- Strategic venture growth options

Our Foundations
Who

Our Engaged People

- Safety and wellbeing
- Leadership
- Talent and capability

Our Engaged Customers

- Customer segmentation
- Customer management model
- Enhanced customer experience

Sustainable for Aotearoa

- Revenue and profitability versus benchmarks
- Environmental sustainability
- Brand awareness and reputation

Active in our Community

- Targeted community partnerships
- Volunteer day programme

Our Values
How



Stronger Together



Do the Right Thing



Expectations Exceed



Take the Lead



Who We Are

Our people embrace their role as **Kaitiaki Kai, guardians of food and are mindful of their shared responsibility to do the right thing for food and the environments it comes from.**

Kaitiaki requires collaboration with others; sharing knowledge, resources, and skills so that everyone benefits, now and for future generations to come.

Every day our people are on the ground, bringing a sense of personal commitment to our partners, at every point of their food supply chains. They share and apply the knowledge and insights gained from nearly 150 years of experience, committed to inspiring a safer, more sustainable and transparent food world.

As a New Zealand Government owned entity, AsureQuality provides independence of the highest integrity instilling confidence in food producers and consumers.

People and Culture

We have a team of over 1700 people across the breadth of our services in New Zealand. Additionally, we have 500 people working in our Bureau Veritas AsureQuality joint venture businesses in Australia and Southeast Asia.

With over 50 different nationalities represented across the business, we are proud of our diverse workforce. Additionally, our gender statistics show a higher proportion of female staff in Food Testing, Field and Support Services, with other services more evenly split.

Our people strategy focuses on the three areas of **safety and wellbeing, leadership** and **talent and capability**. In parallel with this, we are actively strengthening our people foundations.

We are committed to accelerating our Te Ao Māori journey, enabled by new and a dedicated senior leadership role. The first priority is a discovery phase, engaging all stakeholders to conceive a holistic approach that is authentic and enables our purpose and strategy. The outcomes of the initial discovery phase will define a Te Ao Māori strategy and a supporting workplan, building on the passion and dedication of Te Roopu Aka Whiri Hou (our bi-cultural committee).

Our 'belonging' story is being developed as a key element of our culture roadmap. We are also committed to embedding a holistic and authentic Te Ao Māori journey.

Our Values

Our values are core to who we are.



Stronger Together

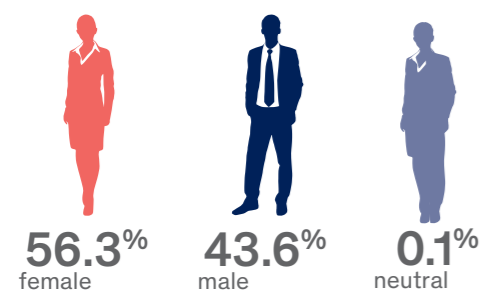
- Pitch in to help others
- Look out for each other
- Give credit for the difference people make
- Value our team, appreciate individuals
- Be proud of all the work we do



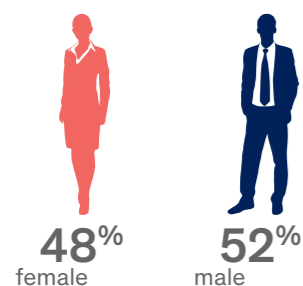
Do the Right Thing

- Stand by our work
- Act when things don't seem right
- Honour our heritage

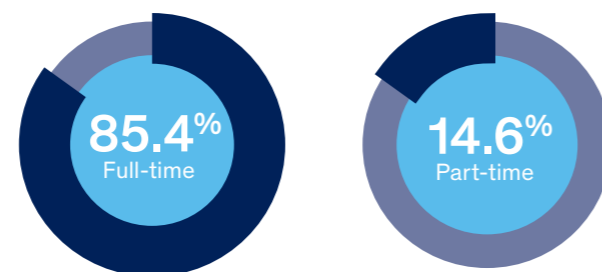
Gender Statistics of total staff



Gender Statistics of the Board, Executive and Senior Leaders



Full-time vs Part-time employment



Multiple generational split across spread of ages



Exceed Expectations

- Committed to deliver because the work we do matters
- We delight our customers
- With our customers we create more value



Take the Lead

- Look ahead
- Find a better way
- Make it happen
- Be open to the new and different

What We Do

With our comprehensive focus on the food supply chain, from farm to consumer, AsureQuality is unique in New Zealand and proud to provide an extensive range of food assurance services.

These services are key to helping farmers, growers and food producers, distributors and retailers meet the necessary domestic and international regulatory and retailer standards to access export markets and assure consumer trust in the safety and quality of food.

Testing

Across our labs in Auckland, Wellington and Christchurch our team of scientists and technicians do testing for food release, forensics and surveillance testing for contaminants and project work.



Inspection

We are the New Zealand government's recognised meat inspection agency. Our plant and seed health teams offer inspection services for seeds, crops and plants.



Auditing

We provide independent auditing expertise for horticulture, food manufacturing, dairy manufacturing, on-farm and environmental programmes.



Other

The biosecurity team works to protect Aotearoa from the impact of pests and diseases in the food and primary industries sector.

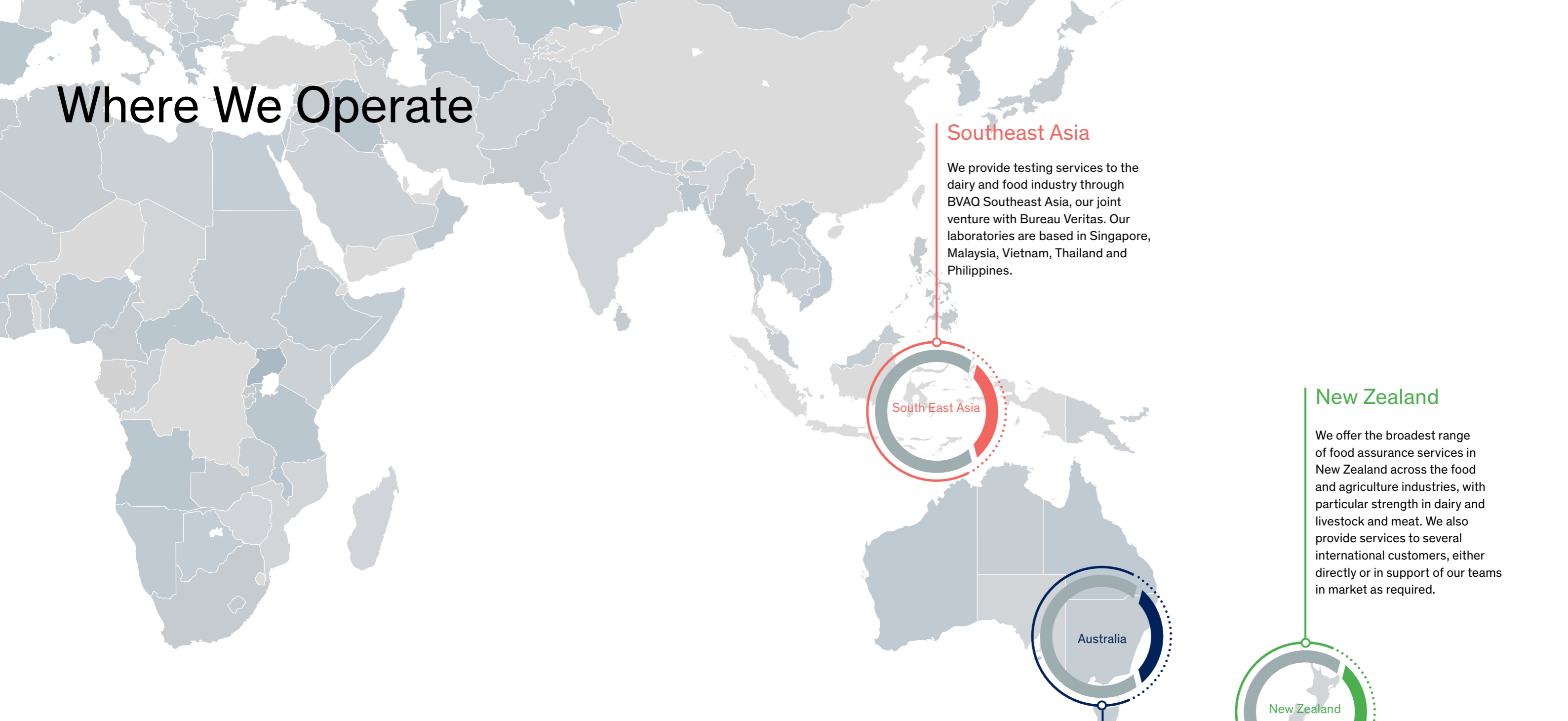
To protect livestock from disease, our technicians manage sampling and testing for TB surveillance. Assurance Marks, AQ Assured and AQ certified provide independent verification of product claims for consumer transparency.

Our data modelling analysts support a range of animal epidemiological scenarios and other primary industry response projects.

Through the Academy we provide an extensive range of courses for vocational training.



Where We Operate



Southeast Asia

We provide testing services to the dairy and food industry through BVAQ Southeast Asia, our joint venture with Bureau Veritas. Our laboratories are based in Singapore, Malaysia, Vietnam, Thailand and Philippines.

South East Asia

Australia

Australia

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

We also have AsureQuality facilities in North Melbourne, where our Diagnostics and Global Proficiency businesses are located.

New Zealand

We offer the broadest range of food assurance services in New Zealand across the food and agriculture industries, with particular strength in dairy and livestock and meat. We also provide services to several international customers, either directly or in support of our teams in market as required.

New Zealand

We support **New Zealand's food and primary producers and exporters**, both in New Zealand and via our network of laboratories in Australia and Southeast Asia.

Financials

Performance Targets

Total Company financial and non-financial performance targets for 2024-2026 are:

| Year Ending 30 June | 2024 | 2025 | 2026 |
|---|----------|----------|----------|
| Financial Performance | | | |
| Revenue | \$222.6m | \$238.7m | \$251.7m |
| Earnings Before Interest and Tax (EBIT) | \$6.0m | \$15.4m | \$21.4m |
| Net Profit After Tax (NPAT) | \$2.9m | \$9.8m | \$14.1m |
| Net Cash Flow from Operating Activities | \$8.7m | \$14.7m | \$20.8m |

Key Ratios

| | | | |
|----------------------------|------|------|------|
| Change in Revenue | 98% | 107% | 105% |
| Change in EBITDA | 81% | 172% | 127% |
| Total Shareholder Return | 1% | - | - |
| Dividend Yield | 1% | - | - |
| Capital Replacement | 234% | 346% | 220% |
| Return on Equity | 3% | 9% | 12% |
| Return on Capital Employed | 6% | 12% | 15% |
| Operating Margin | 7% | 11% | 13% |
| Gearing Ratio | 29% | 33% | 30% |
| Interest Cover | 7 | 9 | 11 |
| Debt to EBITDA | 2.9 | 2.2 | 1.7 |

Non-Financial Performance

| | | | |
|-----------------------------------|------|------|------|
| Staff Turnover Rate | <15% | <15% | <15% |
| Total Injury Frequency Rate | <3.8 | <3.6 | <3.6 |
| Critical Programme Audit Failures | Nil | Nil | Nil |
| Critical Facility Audit Failures | Nil | Nil | Nil |

Ratio of Shareholders' Funds to Total Assets

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

| Year ending 30 June | 2024 | 2025 | 2026 |
|------------------------------------|----------|----------|----------|
| Shareholders' Funds | \$101.6m | \$111.3m | \$125.4m |
| Total Assets | \$183.7m | \$206.7m | \$220.6m |
| Shareholders' Funds / Total Assets | 55% | 54% | 57% |

Ratio of Shareholders' funds to Total assets

Shareholders' Funds includes share capital and reserves (otherwise called 'total equity'). Total assets include all current assets and non-current assets (fixed assets, investments and goodwill) for AsureQuality.

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 is a long-term BBB credit rating agency benchmark. The liabilities of AsureQuality are not guaranteed in any way by the Crown.

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.

Proposed Dividends

The Board has considered the ongoing economic uncertainties caused by the Covid19 pandemic and the operational and capital investments required to invest in our people, facilities, systems, and processes to improve the existing business (which is required to fund our future) and to explore new opportunities which will become the basis of our future business. Based on these core and strategic investment needs, no dividends are planned during the period of this SCI; however, the AsureQuality Board will continue to review this on an annual basis.

Accounting Policies

The financials presented are for the AsureQuality Limited Group ("AsureQuality" or "the Group") as at, and for the year ended 30 June 2024. The Group comprises AsureQuality Limited and its subsidiaries, and its investments in associates and joint ventures.

The accounting policies will be consistent with:

- the legal requirements of the Companies Act 1993 and the State-Owned Enterprises Act 1986 and any other relevant legislation; and
- New Zealand's Generally Accepted Accounting Principles as appropriate to Tier 1 for-profit entities.

AsureQuality's detailed accounting policies are set out in AsureQuality's latest annual report which can be found here: <https://www.asurequality.com/about/annual-reports/>

There have been no changes to these accounting policies.

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 State-Owned Enterprises Act.

Consultation and Approval for Capital Investment Decisions

For some capital investment decisions, AsureQuality may need to seek approval from shareholding Ministers, consult with shareholding Ministers, or simply inform shareholding Ministers.

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, that meets the definition of a 'major transaction' as defined in the Companies Act 1993 and/or where AsureQuality proposes to change its dividend policy to fund the investment, shareholding approval is required.

For any transaction or initiative that is not a major transaction and does not require Crown capital or a change in dividend policy, AsureQuality will consult shareholding Ministers before entering into such a transaction if it:

- 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 million
- falls outside the nature and scope of AsureQuality's activities as defined in its SCI,
- or involves diversification or overseas expansion (including offshore investments).

Where disposal of assets or shares with a book value in excess of \$5 million is contemplated, an assessment of market value of the assets or shares will be undertaken as part of the sale or disposal process.

AsureQuality will inform shareholding Ministers, in advance, of any transaction that does not require approval or consultation but that falls within the scope of the 'no surprises' policy.

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 2023 the Board's estimate of the commercial valuation of the Crown's investment in AsureQuality is \$224 million. Key points about the manner in which this value was assessed are:

- The valuation was calculated as at 30 June 2023.
- 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 9.1% was assumed.
- The current commercial value of the Crown's investment of \$224 million (often referred to as the equity value) was calculated by taking the enterprise value of \$248 million and deducting net debt of \$24 million.

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.

Appendix 1: 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 Revenue Growth measures the change in revenue. Calculation: Current year's Revenue divided by Previous year's Revenue. The EBITDA Growth measures the change in EBITDA. Calculation: Current year's EBITDA divided by previous year's EBITDA

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 Capital Replacement measures capital investment relative to maintenance investment levels. Calculation: Capital expenditure divided by Depreciation and amortisation 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 Operating Margin indicates the level of profitability of the business. Calculation: EBITDA 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 Debt to EBITDA measures the size of debt relative to earnings. Calculation: Net debt divided by EBITDA.

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 2: 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 wholly owned 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.

Helping Aotearoa shape a better food world



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