Livestock Improvement Corporation Limited (LIC)

INTERIM FINANCIAL STATEMENTS

for the Six Months Ended 30 November 2016

Income Statement
for the six months ended 30 November 2016

In thousands of New Zealand dollars	Note	6 months to 30 Nov 2016 *Unaudited*	6 months to 30 Nov 2015 *Unaudited*	12 months to 31 May 2016 *Audited*
Revenue	4	130,326	142,715	205,058
Other income		758	1,927	5,673
Purchased materials		(14,786)	(24,993)	(37,451)
Staff expenses		(52,476)	(55,686)	(92,994)
Depreciation		(5,079)	(5,465)	(11,034)
Amortisation		(8,661)	(6,755)	(13,558)
Other expenses		(21,750)	(28,178)	(53,610)
Earnings before finance activities, taxation and fair value adjustments - elite biological assets		**28,333**	**23,564**	**2,085**
Finance income		63	114	896
Finance expenses		(1,455)	(1,201)	(1,827)
Fair value adjustments - elite biological assets		-	-	(5,144)
Profit/(loss) before taxation		**26,941**	**22,477**	**(3,991)**
Tax on fair value adjustments - elite biological assets		-	-	1,440
Tax - other		(7,647)	(6,585)	(1,464)
Total tax expense		**(7,647)**	**(6,585)**	**(24)**
Profit/(loss) for the period		**19,295**	**15,892**	**(4,015)**
Profit/(loss) attributable to:				
Owners of the Company		19,018	15,980	(3,953)
Non-controlling interests		277	(88)	(61)
		19,295	**15,892**	**(4,015)**
Earnings per share				
Basic and diluted earnings per investment share (NZ dollars)		0.653	0.538	(0.136)

Supplementary note to the Income Statement			
Profit/(loss) for the period	**19,295**	**15,892**	**(4,015)**
(Profit)/loss on fair value adjustments - elite biological assets	-	-	5,144
Tax effect on (profit)/loss on fair value adjustments - elite biological assets	-	-	(1,440)
Underlying net earnings/(loss) excluding fair value adjustments - elite biological assets and tax thereon	**19,295**	**15,892**	**(312)**

Statement of Comprehensive Income
for the six months ended 30 November 2016

In thousands of New Zealand dollars	**6 months to 30 Nov 2016** ***Unaudited***	**6 months to 30 Nov 2015** ***Unaudited***	**12 months to 31 May 2016** ***Audited***
Profit/(loss) for the period	**19,295**	**15,892**	**(4,015)**
Other comprehensive income (net of income tax)			
Items that may be reclassified to the Income Statement in future periods:			
Effective portion of changes in fair value of cash flow hedges	(49)	(8)	(201)
Net change in fair value of available for sale financial assets	820	-	655
Items that will not be reclassified to the Income Statement in future periods:			
Revaluation of fixed assets	-	-	1,709
Other comprehensive income/(loss) for the period (net of tax)	771	(8)	2,163
Total comprehensive income/(loss) for the period	**20,065**	**15,884**	**(1,852)**
Total comprehensive income/(loss) attributable to:			
Owners of the Company	19,788	15,972	(1,791)
Non-controlling interests	277	(88)	(61)
Total comprehensive income/(loss) for the period	**20,065**	**15,884**	**(1,852)**

Balance Sheet
as at 30 November 2016

In thousands of New Zealand dollars	As at 30 Nov 2016 *Unaudited*	As at 30 Nov 2015 *Unaudited*	As at 31 May 2016 *Audited*
Assets			
Fixed assets	80,148	93,784	92,307
Held for sale fixed assets	6,524	-	-
Intangible assets	76,826	70,595	79,655
Biological assets	87,511	92,655	87,511
Investments & derivatives	4,440	2,646	3,346
Total non-current assets	**255,448**	**259,680**	**262,819**
Cash & cash equivalents	4,736	11,877	2,667
Inventories	13,446	13,740	14,617
Biological assets	2,447	2,473	2,393
Investments & derivatives	-	250	-
Trade receivables	73,903	82,644	38,028
Prepayments	5,489	729	3,132
Total current assets	**100,022**	**111,713**	**60,836**
Total assets	**355,470**	**371,393**	**323,655**
Equity			
Share capital	58,464	58,464	58,464
Reserves	32,553	29,611	31,782
Retained earnings	139,720	140,637	120,703
Equity attributable to Owners of the Company	230,737	228,712	210,949
Non-controlling interests	285	(19)	8
Total equity	**231,022**	**228,693**	**210,957**
Liabilities			
Provisions	5,765	5,765	5,829
Term loans	15,000	-	10,000
Deferred tax liability	31,162	31,935	31,187
Total non-current liabilities	**51,927**	**37,701**	**47,016**
Co-operative Control Shares	6,263	6,838	6,797
Derivatives	98	-	16
Trade & other payables	18,972	22,871	22,796
Bank loans & borrowings	36,562	66,318	32,771
Provision for tax	7,258	5,965	477
Provisions	3,367	3,009	2,825
Total current liabilities	**72,521**	**104,999**	**65,683**
Total liabilities	**124,448**	**142,700**	**112,698**
Total equity and liabilities	**355,470**	**371,393**	**323,655**

Director

Date: 9 February 2017

Director

Date: 9 February 2017

Statement of Cash Flows
for the six months ended 30 November 2016

In thousands of New Zealand dollars	Note	6 months to 30 Nov 2016 *Unaudited*	6 months to 30 Nov 2015 *Unaudited*	12 months to 31 May 2016 *Audited*
Net cash from/(used in) operating activities	6			
Cash provided from:				
Receipts from customers		92,572	93,756	201,396
Sale of biological assets		281	274	787
Finance income received		63	114	295
		92,916	**94,144**	**202,478**
Cash applied to:				
Payments to suppliers and employees		(91,601)	(107,938)	(184,008)
Finance expense paid		(856)	(720)	(1,024)
Income tax paid		(892)	(2,965)	(3,010)
		(93,349)	**(111,623)**	**(188,042)**
		(433)	**(17,479)**	**14,436**
Net cash from/(used in) investing activities				
Cash provided from:				
Sale of shares		-	54	54
Sale of fixed assets		438	309	644
		438	**363**	**698**
Cash applied to:				
Acquisition of subsidiary - net of cash acquired		-	-	(6,493)
Acquisition of shares		(273)	(63)	(208)
Acquisition of intangibles		(5,831)	(12,057)	(21,511)
Acquisition of fixed assets		(212)	(10,867)	(12,707)
		(6,316)	**(22,986)**	**(40,919)**
		(5,878)	**(22,623)**	**(40,221)**
Net cash from/(used in) financing activities				
Cash provided from:				
Co-operative Control Shares paid up		821	1,227	1,227
Bank loans & borrowings		9,000	55,650	32,417
		9,821	**56,877**	**33,644**
Cash applied to:				
Repurchase of Co-operative Control Shares		(1,355)	(863)	(904)
Dividends paid to Shareholders of the Group		-	(5,984)	(5,983)
Interest paid on Co-operative Control Shares		-	(628)	(628)
		(1,355)	**(7,475)**	**(7,515)**
		8,467	**49,402**	**26,129**
Net increase/(decrease) in cash balances		**2,156**	**9,299**	**344**
Cash balances at beginning of period		2,667	2,523	2,523
Effect of exchange rate changes on cash held		(87)	54	(201)
Closing cash balances		**4,736**	**11,877**	**2,667**

Statement of Changes in Equity
for the six months ended 30 November 2016

In thousands of New Zealand dollars	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Non Controlling interests	Total Equity
	unaudited	*unaudited*	*unaudited*	*unaudited*	*unaudited*	*unaudited*	*unaudited*
Balance at 1 June 2015	58,464	160	143	29,316	130,640	69	218,792
Total comprehensive income for the period							
Profit/(loss) for the period	-	-	-	-	15,980	(88)	15,892
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	(8)	-	-	-	-	(8)
Total other comprehensive income/(loss)	-	(8)	-	-	-	-	(8)
Total comprehensive income/(loss) for the period	**-**	**(8)**	-	-	**15,980**	**(88)**	**15,884**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	(5,983)	-	(5,983)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(5,983)**	**-**	**(5,983)**
Balance at 30 November 2015	**58,464**	**152**	**143**	**29,316**	**140,637**	**(19)**	**228,693**
	audited	*audited*	*audited*	*audited*	*audited*	*audited*	*audited*
Balance at 1 June 2015	58,464	160	143	29,316	130,640	69	218,792
Total comprehensive income for the year							
Profit/(loss) for the year	-	-	-	-	(3,953)	(61)	(4,015)
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	(201)	-	-	-	-	(201)
Net change in fair value of available for sale financial assets	-	-	655	-	-	-	655
Revaluation of property plant and equipment	-	-	-	1,709	-	-	1,709
Total other comprehensive income/(loss)	-	(201)	655	1,709	-	-	2,163
Total comprehensive income/(loss) for the year	**-**	**(201)**	**655**	**1,709**	**(3,953)**	**(61)**	**(1,852)**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	(5,983)	-	(5,983)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(5,983)**	**-**	**(5,983)**
Balance at 31 May 2016	**58,464**	**(41)**	**798**	**31,025**	**120,704**	**8**	**210,957**

Statement of Changes in Equity (continued)
for the six months ended 30 November 2016

In thousands of New Zealand dollars	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Non Controlling interests	Total Equity
	unaudited	*unaudited*	*unaudited*	*unaudited*	*unaudited*	*unaudited*	*unaudited*
Balance at 1 June 2016	58,464	(41)	798	31,025	120,704	8	210,957
Total comprehensive income for the period							
Profit/(loss) for the period	-	-	-	-	19,018	277	19,295
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	(49)	-	-	-		(49)
Net change in fair value of available for sale financial assets	-	-	820	-	-		820
Total other comprehensive income/(loss)	-	(49)	820	-	-	-	771
Total comprehensive income/(loss) for the period	**-**	**(49)**	**820**	**-**	**19,018**	**277**	**20,066**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-	-
Balance at 30 November 2016	**58,464**	**(90)**	**1,618**	**31,025**	**139,722**	**285**	**231,023**

Notes to the Interim Financial Statements

1. Accounting entity

Livestock Improvement Corporation Limited ('LIC' or the 'Parent') is a company domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and listed on the Alternative Board of the New Zealand Stock Exchange Limited ('NZAX'). The Parent is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Market Conducts Act 2013. Its financial statements comply with these Acts.

These financial statements of LIC, as at and for the six months ended 30 November 2016, comprise LIC and its subsidiaries (together referred to as the 'Group').

2. Accounting policies

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') as appropriate for profit oriented entities; which in the case of the Group is the New Zealand equivalent to International Accounting Standard 34. The Interim Financial Statements should be read in conjunction with the annual report for the year ended 31 May 2016. The accounting policies applied are consistent with those used in the comparative period (the six months to 30 November 2015) and in the (audited) annual report for the year ended 31 May 2016.

3. Operating Segments

Information about reportable segments

The Group has identified its Chief Operating Decision Maker (CODM) to be its Chief Executive (CE). This has been determined on the basis that it is the CE who decides the allocation of resources to segments and assesses their performance.

The operating segments of the Group have been determined on the components of the entity that the CODM monitors in making decisions about operating matters. Such components have been identified on the basis of internal reports the CODM reviews regularly in order to allocate resources, and to assess the performance of the Group.

The Group has determined it has four operating segments which are reportable, all other operating segments have been included in 'Other segments'. The four reportable segments which are described below, are the Group's strategic business :

- NZ Markets Genetics. Is the provision of bovine genetic breeding material and related services predominately to dairy farmers.
- Herd Testing. The provision of herd testing and animal recording for pastoral farmers.
- Farm Software. Includes the provision of data recording and farm management information services.
- Farm Automation. Includes the provision of dairy automated technologies from LIC Automation Ltd, including Protrack.

Other operating segments include international operations, support services, research & development, diagnostics, animal health & treatment services, LIC Deer Ltd, animal evaluation and leadership and governance support services for the Group. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2016 or 2015.

Information regarding the operations of each reportable segment is included below. Performance is measured based on segment gross margin before administrative and other fixed costs, interest, finance expenses and income tax. Segment gross margin is used to measure performance as the CODM believes that such information is the most relevant in evaluating the results of certain segments. The strategic business units offer different products and services and are managed separately because they require different technology and operational strategies.

External revenue from the sale of goods in farm automation is recognised in profit or loss in proportion to the stage of completion of the transaction with reference to milestones.

External revenue from provision of goods and services in NZ market genetics, herd testing, farm software and other segments is recognised in profit or loss, measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

Notes to the Interim Financial Statements

3. Operating Segments (continued)

	NZ Market Genetics			Herd Testing			Farm Software			Farm Automation			Total Reportable Segments			Other			Eliminations		
	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016
In thousands of New Zealand dollars	*Unaudited*		*Audited*	*Unaudited*		*Audited*	*Unaudited*		*Audited*	*Unaudited*		*Audited*	*Unaudited*		*Audited*	*Unaudited*		*Audited*	*Unaudited*		*Audited*
External revenues	70,567	76,890	82,631	9,735	9,121	22,121	19,792	19,448	40,166	11,768	11,998	17,061	111,862	117,457	161,979	19,222	27,184	48,752	-	-	-
Inter-segment revenue	-	-	-	-	-	-	-	-	-	1,006	0	92	1,006	0	92	942	1,013	3,292	(1,948)	(1,013)	3,384
Total Revenue	70,567	76,890	82,631	9,735	9,121	22,121	19,792	19,448	40,166	12,774	11,998	17,153	112,868	117,457	162,071	20,164	28,198	52,044	(1,948)	(1,013)	3,384
Reportable segment profit before income tax	44,038	47,772	49,055	3,697	3,038	5,313	15,042	13,600	25,152	8,238	5,517	7,201	71,015	69,928	86,720	20,800	14,814	28,245	-	-	-

	Total		
	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016
In thousands of New Zealand dollars	*Unaudited*		*Audited*
External revenues	131,084	144,641	210,731
Inter-segment revenue	-	-	-
Total Revenue	131,084	144,641	210,731
Reportable segment profit before income tax	91,815	84,742	114,965
Unallocated amounts:			
Permanent and non seasonal Personnel, Operating and Overheads	(63,481)	(61,178)	(112,831)
Other finance income/expenses	(1,392)	(1,087)	(931)
Impairment	-	-	(50)
Fair value adjustments - elite biological assets	-	-	(5,144)
Profit/(loss) before income tax	26,941	22,477	(3,991)

Notes to the Interim Financial Statements

4. Seasonal nature of business

LIC's business, particularly the Parent's artificial breeding business, is highly seasonal. November results, since they incorporate the majority of the artificial breeding revenues but not a similar proportion of total costs, are not indicative of the second half result nor, therefore, the full year result.

5. Fixed assets

In thousands of New Zealand dollars	**6 months to 30 Nov 2016** *Unaudited*	**6 months to 30 Nov 2015** *Unaudited*	**12 months to 31 May 2016** *Audited*
Acquisitions	685	10,922	14,134
Disposals	1,822	1,814	8,769

6. Reconciliation of the profit/(loss) for the period with the net cash from operating activities

In thousands of New Zealand dollars	**6 months to 30 Nov 2016** *Unaudited*	**6 months to 30 Nov 2015** *Unaudited*	**12 months to 31 May 2016** *Audited*
Profit/(loss) for the period	**19,295**	**15,892**	**(4,015)**
Adjustments for:			
Depreciation	5,079	5,465	11,034
Amortisation	8,661	6,755	13,558
Change in deferred taxation	(25)	(235)	(983)
Change in fair value of elite biological assets	-	-	5,144
Impairment	-	-	50
Gain/(loss) on sale of fixed assets	(328)	(167)	(332)
	13,386	**11,819**	**28,470**
Change in inventories (increase)/decrease	1,171	(578)	(1,455)
Change in trade receivables (increase)/decrease	(35,875)	(50,435)	(5,819)
Change in biological assets (increase)/decrease	(54)	(59)	20
Change in other current assets (increase)/decrease	(2,357)	1,383	(968)
Change in trade & other payables increase/(decrease)	(3,824)	(511)	(586)
Change in provisions increase/(decrease)	7,324	4,401	(1,269)
Items reclassified to/from Investing/Financing activities	502	608	58
	(33,113)	**(45,191)**	**(10,019)**
Net cash from operating activities	**(433)**	**(17,479)**	**14,436**

7. Capital commitments

As at 30 November 2016 the Group had entered into contracts to purchase fixed and intangible assets for $1.049 million (30 November 2015: $2.461 million; 31 May 2016: $0.540 million).

8. Events subsequent to reporting date

There have been no significant events subsequent to the reporting date.

Notes to the Interim Financial Statements

9. Related parties

Transactions with key management personnel
Key management personnel compensation comprised:

In thousands of New Zealand dollars	6 months to 30 Nov 2016 *Unaudited*	6 months to 30 Nov 2015 *Unaudited*	12 months to 31 May 2016 *Audited*
Short term employee benefits	1,610	1,447	3,018
Defined contribution superannuation plans	25	60	94
	1,635	**1,507**	**3,112**

	Transaction value			Balance outstanding		
In thousands of New Zealand dollars	6 months to 30 Nov 2016 *Unaudited*	6 months to 30 Nov 2015 *Unaudited*	12 months to 31 May 2016 *Audited*	6 months to 30 Nov 2016 *Unaudited*	6 months to 30 Nov 2015 *Unaudited*	12 months to 31 May 2016 *Audited*
Sale of goods and services						
Sale of goods and services on normal trade terms to Directors and key management personnel	814	939	2,059	332	583	282

10. Audit

In accordance with the Financial Reporting Act 2013 these interim financial statements are not required to be audited. In line with previous years these interim financial statements have not been audited.

11. Contingencies

In the normal course of business, the Group is subject to claims against it. All current claims are contested and defended. No provision has been made in these financial statements, as directors expect that the possibility of any material outflow in settlement is remote.

12. Equity securities

1,354,747 Co-operative Control Shares have been repurchased during the period.

821,437 Co-operative Control Shares have been issued during the period.

13. Dividend

No dividend was declared by LIC in relation to the 2016 financial year. In relation to the 2015 financial year LIC declared a dividend of 9.15c per Co-operative Control Share and 20.26c per Investment Share, paid to shareholders on 22 August 2015. No other dividends have been declared in the period.

14. Net tangible assets per investment share

As at 30 November 2016 net tangible assets per investment Share were $5.22 (as at 30 November 2015 they were $5.35).

15. Fair Value

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) *Land and buildings*

The fair value of land and buildings is based on market values. Fair values of land have been determined by using a direct comparison methodology and the fair value of buildings have been determined by using a capitalised rental methodology. Land and Buildings would fall under level 2 in the fair value hierarchy.

15. Fair Value (continued)

(b) *Biological assets*

The fair value of livestock held for trading is based on the market price of livestock of similar age, breed and genetic make-up. This livestock would fall under level 2 in the fair value hierarchy.

The fair value of elite bulls, for which there is no active market, is determined using a discounted cash flow approach. The elite bull team would fall under level 3 in the fair value hierarchy.

(c) *Fair value hierarchy*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Interim Financial Statements

15. Fair Value (continued)

	Level 1			Level 2			Level 3			Total		
	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016	6 months to 30 Nov 2016	6 months to 30 Nov 2015	12 months to 31 May 2016
In thousands of New Zealand dollars	*Unaudited*		*Audited*	*Unaudited*		*Audited*	*Unaudited*		*Audited*	*Unaudited*		*Audited*
Derivatives - designated at fair value through profit or loss	-	-	-	(98)	250	(16)	-	-	-	(98)	250	(16)
Available for sale financial assets	1,307	1,057	1,295	2,971	1,358	1,889	162	213	162	4,440	2,628	3,346

There have been no transfers between levels in either direction during the period