Introduction to LIC's Share Simplification

February 2018

Our Co-operative. Our Future. Your Vote.

Internet voting, postal voting & proxy appointments close
10:30am Monday 12 March 2018

Or

Vote in person at the Special Meeting
10:30am Wednesday 14 March 2018

Our Co-operative. Our Future. Your Vote.

Contents

There are a number of elements to the Share Simplification, some of which require a detailed explanation due to their complexity. This document is intended to introduce the Share Simplification and its concepts to you, in advance of you reading the Notice of Meeting.

The Notice of Meeting contains important information and details that are not set out in this introduction, and the Notice of Meeting must be read alongside this introduction.

HISTORY OF LIC'S SHARE STRUCTURE

In 2003, LIC shareholders voted to move to two classes of shares – co-operative shares and investment shares. The share structure change was driven by a number of reasons at the time including:

- A desire to give shareholders a greater share in the co-operative's value.
- Providing shareholders choice over the degree of their exposure to investment risk.
- Supporting a strategy of growth and giving LIC more options to raise capital.

These were all legitimate issues at the time but, 14 years on, the situation and LIC have evolved.

It is also important to appreciate that LIC has not been a traditional co-operative since the move to two classes of shares. The development of LIC as a modern hybrid co-operative was further reinforced in 2008 when it became no longer compulsory for co-operative shareholders to own investment shares.

In 2015 and 2016, we went out on the road to talk to shareholders about our strategy and the longer term needs of your co-operative. In particular, we discussed the different growth and earnings profiles and capital requirements of key parts of the co-operative and the then proposal to separate the company into two – its core genetics and its agri-technology businesses. That legal separation took place in December 2016.

During the course of those roadshows, the Board received considerable shareholder feedback that the current two share structure may not be best for meeting the current and future needs of the co-operative and our farmers. Increasingly, shareholders are not purchasing investment shares (around a third of shareholders only hold co-operative shares) and are missing out on a core part of the value created by the co-operative (LIC delivers value to farmers through dividends, reinvestment in the business, and in products and services). This is creating a growing disparity between co-operative members.

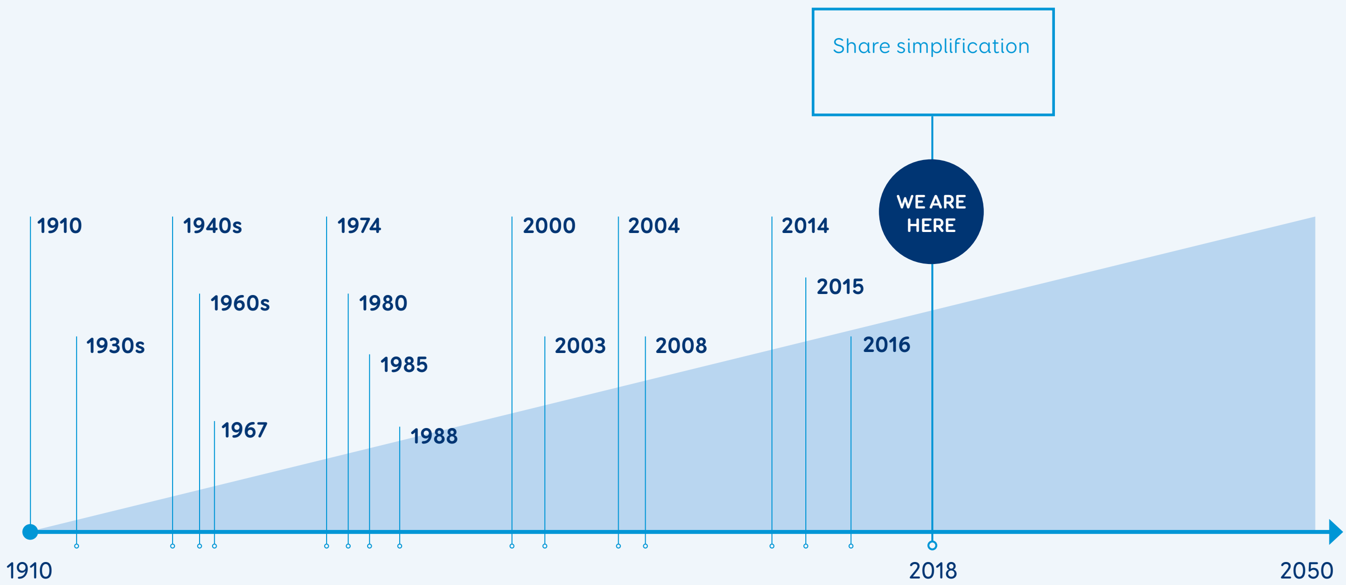
In response, the Board began a comprehensive review of our capital structure two years ago.

The Board has now completed this review and considers that the existing share structure is not sustainable and that a move to a single class of shares is the best option for ensuring a strong farmer owned co-operative with aligned incentives for all shareholders.

We've never stood still

As a co-operative, we're constantly evolving. Over the last 100 years we've introduced many important changes and share simplification is the next step in this process.

This isn't a journey with an end point, the current volatility and rate of change and challenges for our industry means we can't afford to stand still.



LIC Milestones

1910
Small regional milk testing co-ops

1930s
Milk testing throughout New Zealand

1940s
Artificial insemination of dairy cows begins

1960s
Sire Proving Scheme introduced, herd records computerised

1967
Milk meters used for the first time in herd testing

1974
Breeding Index (BI) introduced

1980
Yellow note book introduced

1985
National herd database operational

1988
LIC formed as a wholly owned subsidiary of the Dairy Board

2000
KiwiCross®
semen available

2002
LIC becomes a user owned co-operative

2003
Protrack™ solutions launched

2004
LIC issues investment shares and lists on the NZAX

2008
Genomics used to assist sire selection

2014
Protrack EZ Heat™ launched and breakthrough in SGL achieved

2015
LIC Automation formed (incorporating Protrack, DAL, and Lely Sensortec)

2016
LIC forms Agritech company

2018
Share Simplification

WHY ARE WE DOING THIS?

Protect & Grow

Share simplification is part of a broader process of change and transformation that LIC is going through. This is about protecting the fundamentals of the co-operative - namely, that only NZ dairy farmers can be shareholders of LIC - while making sufficient profits to enable LIC to reinvest in the future for new and improved products and services.

This process will help ensure a resilient and adaptable co-operative that is able to respond in an agile way to changes and challenges that may lie ahead from the threat of disruption.

Disruption threatens and will challenge our four core strategic areas of focus:

1. **Genetics and information to create superior livestock**

   Example: Gene editing affecting genetics programmes and In Line Milk Meters disrupting herd testing and access to data.

2. **Information to improve decision making to enable superior livestock performance**

   Example: Competitors to MINDA from the US and Europe reducing LIC's access to data.

3. **Hardware systems to improve productivity and decision making**

   Example: In Line Milk Meters disrupting herd testing and access to data, milking machine manufacturers displacing MINDA with herd management tools.

4. **Success of LIC International**

   Example: Competition from other businesses investing in technology to keep their products and services at the leading edge globally.

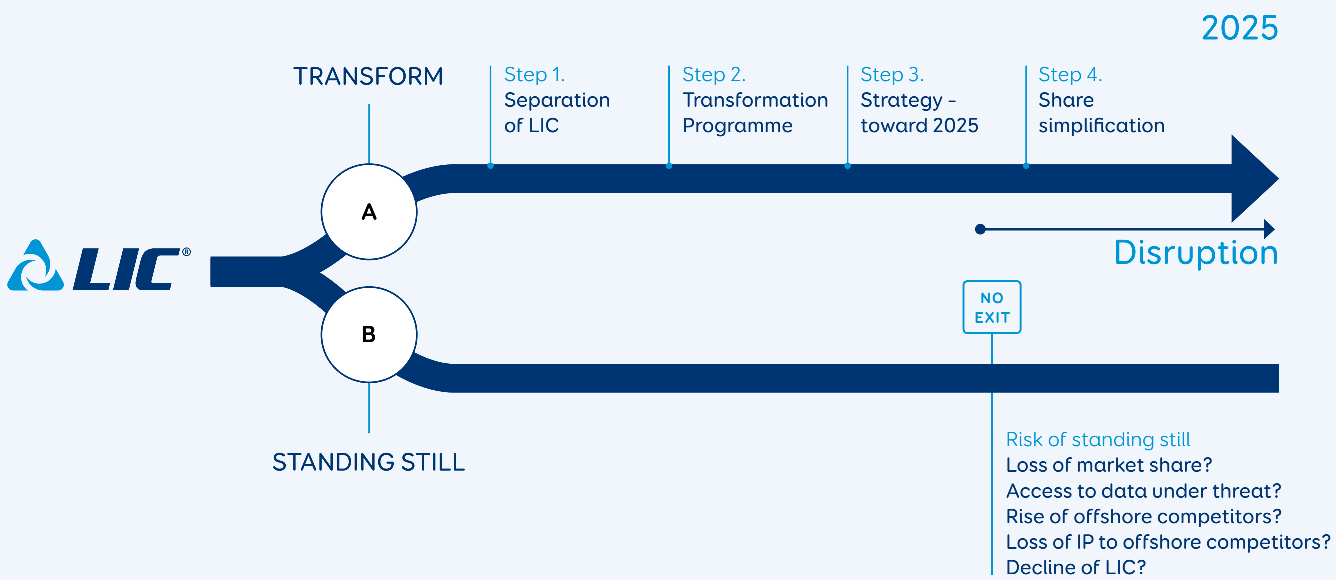
We have a global edge that gives you a competitive advantage in terms of on-farm productivity and profitability - but we have to be ambitious to keep that edge against the best in the world.

To do that we have to be constantly improving the way we do business.

Responding to disruption

Standing still is not an option for LIC. In this age of disruption and radical change, if we don't continue to evolve we put at risk what you value most about the co-operative.

Our Roadmap - Adapting to Disruption



Our Roadmap - Where we are up to

1 Separation of LIC	2 Strategy - Purpose	3 Transformation Programme	4 Share Simplification
Complete	Complete	Underway	The next step

Share simplification

The next step in LIC's ongoing transformation

The Board considers this proposed change will help strengthen and grow our co-operative and position it better for the future.

This is all about protecting what we've built together and ensuring that New Zealand dairy farming continues to enjoy the benefits of a strong and prosperous LIC.

The Board considers share simplification will:

1. Protect the co-operative principles that are fundamental to LIC
2. Ensure a fairer system that treats all shareholders equally
3. Give LIC capital flexibility to respond to inevitable future challenges and opportunities
4. Support LIC's strategy (Vision, Purpose, Strategic Themes and Values)
5. Deliver a simpler share structure with less hassle for shareholders and LIC

The Board has commissioned an independent report from Northington Partners to assess the rationale for the proposal, its merits, and relative fairness to the holders of co-operative and investment shares.

They concluded that, on balance, it is in the best interests of all shareholders. Northington Partners' report has been sent to you with this document. We recommend you read it.

FURTHER DETAILS

For a summary of Northington Partners' report see page 14 of the Notice of Meeting.

1) Protecting the co-operative

The overriding priority of the Board in reaching this point has been protecting the co-operative principles that are at the heart of LIC.

This proposal does just that.

As is the case now, only New Zealand dairy farmer customers will be shareholders of LIC, and farmers who spend more with LIC will need to own a greater share of the co-operative.

At the same time, those farmers who wish to invest more than the minimum share requirement can continue to do so.

Protecting the fundamentals of the co-operative means that LIC will be able to continue to look after the interests of shareholders by supporting farmers with the core services required, as well as earning sufficient profits to enable LIC to continue to reinvest in the future for new and improved products and services.

2) A fair structure for all

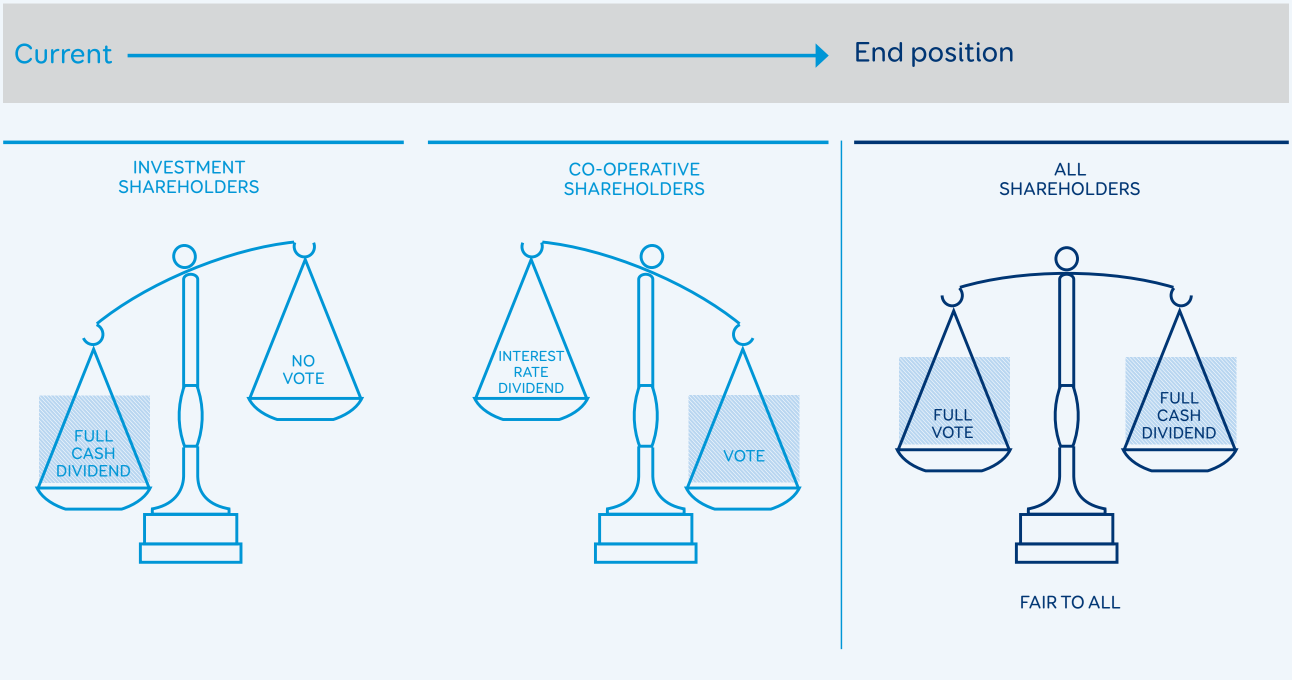
In a word, it's about fairness. We've heard shareholder concerns about the current share structure and acted on them.

Shareholders told us that they were worried about the tension between the two classes of shares and that they wanted shareholders to speak with one voice.

As LIC continues to grow, so will the disparity between the two classes of shares and this is unsustainable and unfair.

Having a single share structure addresses this disparity because all shares will receive the same dividend and have a vote.

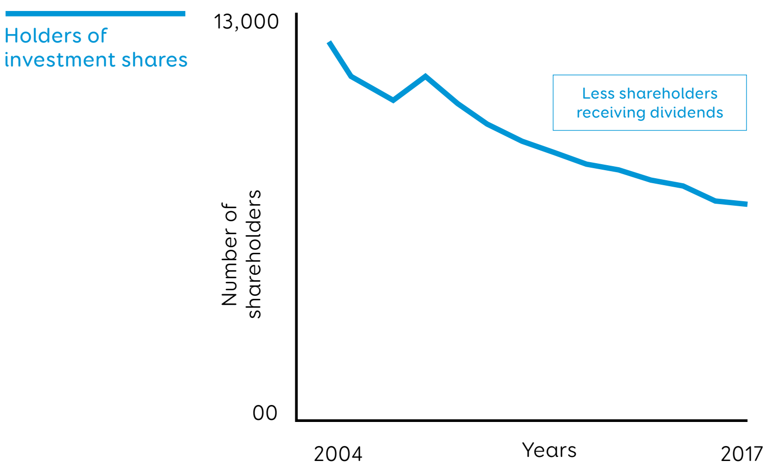
Ultimately, it will ensure that all shareholders get to benefit from the value created in the co-operative through products, services and dividends.



If the change to a single share structure does not go ahead, the disparity between the two classes of LIC shares is expected to get worse over time.

The trend line is clear - increasingly shareholders are not purchasing investment shares and investment shares are being concentrated in the hands of an ever smaller pool of shareholders.

If we do nothing co-operative shareholders will continue to receive only an interest rate dividend and will not otherwise share in the profits of LIC, and investment shareholders will continue to have no voting rights.



3) Give LIC capital flexibility

The review of LIC's share structure found that LIC's ability to raise capital in the future to meet any of its funding needs was not as simple or effective as was envisaged at the time the current share structure was set-up.

It is prudent for us to address this capital inflexibility now to ensure that we can respond appropriately and in the best interests of the co-operative to any future capital needs.

The move to a single share structure will start to help address this and begin the process of giving LIC greater flexibility.

It will give us a better platform to raise capital from to take advantage of growth opportunities and respond to unexpected external challenges. It will not open LIC up to third party control as the fundamentals of the co-operative will be protected.

It is important to note that there is no intention to substantively raise capital from third party sources at this time. While the process of share simplification itself will raise a small amount of additional capital it is not the primary reason for the change.

If LIC wishes to introduce further equity funding from a third-party investor for LIC or LIC Agritechnology Company Ltd in the future, it would seek shareholder approval for it at that time. However, LIC may acquire interests in other companies, make further minority or majority investments, and form joint ventures from time to time as it grows and diversifies the business.

4) Supporting LIC's strategy

We have talked a lot in recent years about LIC's strategy for the future and in particular more recently about the separation on 1 December 2016 of LIC into two businesses, both owned by the co-operative. A core genetics business and an agri-tech company.

Genetics and agri-tech are both important areas where we provide support to our farmers. They are both critical to the future success of the co-operative and ensuring the benefits of growth flows to our farmers.

In 2017, following shareholder feedback, we removed the company's stated goal of becoming a $1 billion revenue company and focused with staff, the Shareholder Council and the Board on clearly defining and articulating LIC's purpose. That purpose, the reason LIC exists, is to empower livestock farmers through the delivery of superior genetics and technology.

Moving to a single share structure is an important part of delivering on our purpose and ensuring that your voice is heard, reducing the conflicting perspectives that arise from the two class share structure.

We think it is important for our farmers to have the ability to speak with one voice through the right to vote on any important decisions relating to the strategy.

This is particularly the case when we have two distinct lines of business, with separate growth and earnings profiles, and capital requirements. The move to a single share structure will help support farmers to speak with that one voice.

This is something that you have made clear to us is important to you.

5) Making life simpler for all

Any co-operative structure has its complexities, but once the transition is complete, the proposed new single share structure will simplify the administrative requirements for both LIC and its customers.

Having only one class of shares will mean that shareholders' interests are better aligned and the red-tape and extra requirements of having two share classes will be removed.

Changes for existing shareholders will be minimised under the proposed new structure and in most cases, you will have to do less than what you do now.

- One key change is that we are proposing introducing expenditure bands for determining whether farmers meet the share standard. This means that, unlike now, most of you won't have to buy more shares unless you increase your LIC spend significantly.

- Under the new structure, you will not be required to sell shares if your holding exceeds the share standard. This reduces required share trading but allows you to sell if you want to.

- While the share standard is increasing (this is explained later in this document), we are ensuring that all existing shareholders meet the new standard now.

- The share standard will also be calculated using a three-year average to ease the cost in any one year if you increase your spend significantly.

- As is currently the case if you leave the co-operative and don't sell your shares, LIC will sell them on your behalf and if you do not buy shares yourself, LIC will ensure you "share-up" as part of the annual update.

Having a simpler share structure and reduced administrative burden for shareholders will mean less paperwork for you, and more time for LIC to focus on its core business.

Protecting what we value about this great co-operative is not just about preserving the status quo. For LIC to continue to build and protect what you value about it, we need to evolve. A single share structure is an integral part of this evolution.

As a Board, we believe that staying with the existing share structure will hinder LIC's ability to deliver on our strategy and our vision to improve the prosperity and productivity of our farmers. We believe that this will be to the detriment of all shareholders, especially as we all face a set of new and complex challenges from peak cow to environmental issues to animal welfare.

WHAT IS HAPPENING?

In deciding on a single structure approach the Board was guided by four fundamentals.

These fundamentals resulted in the Board considering several options in detail before deciding on the Nil Paid Share option. The Board chose this option for its transparency and simplicity.

Fundamentals of Single Share Structure Approach

1	- Post-restructure, each existing investment share and co-operative share will be entitled to equal voting and dividend rights.
2	- The reorganisation will fairly reflect the relative number of each class of shares, taking into account the relative value attributable to each class of shares. - Investment Shares are worth more than the co-operative share's $1, so co-operative shareholders will ultimately need to "invest" additional funds to equalise with investment shareholders and bridge the value gap. - Co-operative shareholders will only have to meet their additional investment from future dividends except where they leave the co-operative before the additional nil paid shares have been paid for.
3	- Single share structure means all shares have a market price and there will no longer be a $1 co-operative share. - To give customers certainty around the number of shares they must hold to meet the share standard, the share standard will be expressed in terms of the dollar value of services to which ownership of a share entitles the customer. - The current share standard effectively requires 1 share to be held for each $25 of qualifying expenditure (4%). We are going to increase the share standard to one share for each $6.25 of qualifying expenditure to ensure that the value of capital currently invested in co-operative shares is captured. - The restructure itself will not require existing shareholders to invest new capital to meet the increased share standard.
4	- Changes to existing co-operative rules minimised. - The existing constitution will be amended and replaced, as explained in the Notice of Meeting.

For a range of technical and legal reasons the process by which the restructure from two classes of shares to one class of ordinary shares will be carried out is complex. These are explained in detail in the accompanying Notice of Meeting. The interim impact on co-operative and investment shares is shown on the next page.

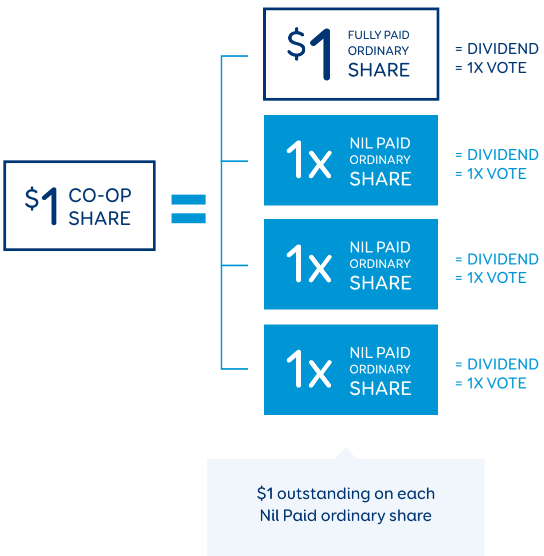
FURTHER DETAILS

For further details on how the proposal will impact existing shareholders see page 12 of the Notice of Meeting.

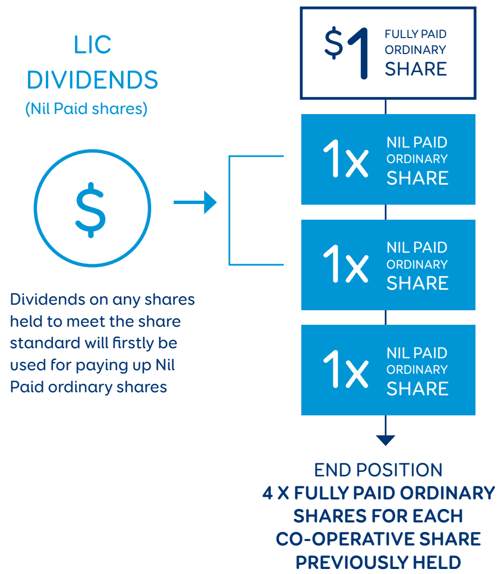
For further details on what the proposal will involve, see page 18 of the Notice of Meeting.

Changes to co-operative shares

Nil Paid Shares



How the dividends work



For each co-operative share you will receive one fully paid ordinary share and three nil paid ordinary shares (which will need to be paid up to $1).

The nil paid shares are otherwise normal shares and carry the right to dividends and to vote at shareholder meetings but cannot be traded on the NZAX until they are fully paid up.

You will, over time, be obliged to pay-up each nil paid share you hold so it is a fully paid ordinary share. The outstanding $1 per share will be funded through the dividends received on the nil paid shares, and any fully paid shares held to meet the share standard.

The price of the ordinary shares shown above has been set by the Board after they received advice from external parties. An independent adviser was appointed to assess the merits of the proposal and their report is included in the accompanying Notice of Meeting.

Changes to investment shares

For investment shares, each share will simply be split into four $1 investment shares. These shares will then be reclassified into ordinary shares.

These ordinary shares will be fully paid and will carry the rights to a dividend and to vote at shareholder meetings and for directors.

1 X INVESTMENT SHARE = 4X $1 FULLY PAID ORDINARY SHARES

DIVIDEND & VOTE ON EACH SHARE

Changes to the Share Standard

As highlighted earlier, a number of changes will be made to the share standard under the proposal. The key outcome is that the share standard will be increasing by four times.

However, all existing shareholders will automatically meet the new share standard on implementation, as the nil paid shares that will be issued to co-operative shareholders can be used to meet it. Customers who own investment shares will be above the share standard.

Other material changes include:

- The share standard will be based on a three year average of qualifying expenditure rather than just the previous year's expenditure as is currently the case.
- Shareholders will not be required to sell down shares held in excess of the share standard.
- The minimum spend before the share standard applies is being increased to $1,000 (although existing shareholders spending less than $1,000 will be unaffected).
- Qualifying Expenditure will be measured in uniform $5,000 bands, meaning shareholders will generally not need to adjust their shareholdings unless there has been a material increase in their spending with LIC. This reduces the number of share purchases shareholders have to make and makes it easier for shareholders to determine the minimum number of shares they need to own.

FURTHER DETAILS

For further details on changes to the share standard see page 24 of the Notice of Meeting.

Changes to the Constitution

The proposal will result in a substantial number of changes to LIC's Constitution. In broad terms, most of the changes are consequential - that is, they reflect the key elements of the proposal described above and elsewhere in this document and the Notice of Meeting.

In addition to these consequential changes, changes have also been made to increase the flexibility of the Board's decision-making ability with respect to changes to the share standard, minimum purchases amount and qualifying products and services.

These changes are subject to Ministerial consent.

FURTHER DETAILS

For further details on changes to the Constitution see Schedule 2 of the Notice of Meeting.

Shift to market pricing

Under the proposal, all fully paid ordinary shares will be listed on the NZAX after the restructuring (only the investment shares are currently listed).

Market based pricing means all shareholders will participate in what we hope will be gains in the LIC share price as it successfully executes its strategy. The price of the shares will move up and down depending on how our farmers view the financial performance of LIC, usual demand / supply considerations, and broader economic factors.

Shares required to be held to meet the share standard must be sourced from other shareholders or the market, although the Board will retain the ability to issue shares directly. Equally, shareholders who are required to sell ordinary shares, such as where they cease to be a customer of LIC, will be required to sell their shares to other shareholders or through the market.

If you choose not to share-up and meet the share standard, or fail to sell your shares when you cease to be a customer of LIC, within the required time frame (approximately three and sixteen and a half months respectively) LIC will seek to do this on your behalf, as it does already for those investment shareholders who have left the co-operative and have not sold their shares within the permitted time frame.

FURTHER DETAILS

For further details on NZAX listing and share trading of fully paid ordinary shares see page 23 of the Notice of Meeting.

Key Risks

Any investment in LIC will be subject to industry and LIC-specific risks, and your exposure to these risks may change as a consequence of the share reclassification being implemented. These risks relate to the financial position and performance of LIC, and to LIC's ability to deliver products and services to its shareholders. In particular, under the proposal, the value of the shares going forward will be determined by the market and will move up and down depending on a variety of factors. That means any shareholders looking to buy or sell shares will be exposed to market price risk.

Shareholders should consider these potential risks, the likelihood of a risk event occurring, and the impact it may have on a shareholder's investment.

FURTHER DETAILS

For further details on key risks to LIC's business and your investment see page 50 of the Notice of Meeting.

WHAT NEXT?

When is it happening?

The proposal we're writing to you about today is complex and very important to the future of our co-operative. Because of this, it is vital that you understand it and its implications. Over the next month LIC will be holding a series of roadshows around the country to help answer any questions you have on the share simplification proposal.

For detail on these roadshows please see the Notice of Meeting.

FURTHER DETAILS

For further details on the approval timetable and implementation timetable for the proposal see page 9 of the Notice of Meeting.

For further details on how you can cast a vote see page 34 of the Notice of Meeting.

Internet voting, postal voting & proxy appointments close 10:30am Monday 12 March 2018 or vote in person at the Special Meeting 10:30am Wednesday 14 March 2018

What do I need to do?

The first thing for you to do is to read carefully through the information contained in this pack before voting.

There will be a series of LIC shareholder roadshows up and down the country giving you a further opportunity to discuss any issues or queries you may have about the share simplification proposal.

We'd also urge you to seek independent financial advice at any time on the proposal.

Most importantly of all, VOTE. LIC is your co-operative and it is your vote that will decide whether the share simplification proposal proceeds or not.

During the voting period, if you have not voted, you will receive "reminder to vote" emails from iro@electionz.com.

There are 3 ways to vote:

1. **Vote Online**
   See voting papers for details
   Voting closes 10:30am 12 March 2018

2. **Postal Vote**
   See voting papers for details
   Must be received by no later than 10:30am 12 March 2018

3. **Vote in person or via proxy at the Special Meeting**
   See voting papers for details

Voting is easy and will only take a few minutes of your time. It is vital that you have your say over this important aspect of LIC's future.

We understand that you will have questions about the share simplification proposal. A Q&A follows this letter and hopefully that will answer many of your questions.

The special meeting will also give you the chance to ask your directors about this proposal.

For any further questions please call the Election Helpline on 0800 666 033.

SINGLE SHARE STRUCTURE Q & A

Q.	A.
Does the Shareholder Council support this proposal?	Yes. The Board has engaged with the Council and they support the share simplification proposal.
Has the proposal been independently assessed at all?	Yes it has. The Board commissioned Northington Partners to independently assess the rationale for the proposal, its merits, and relative fairness to the holders of co-operative control and investment shares. They concluded that, on balance, it is in the best interests of both classes of shareholders and LIC. A copy of their report is attached to the Notice of Meeting.
How do I vote?	Voting is quick and easy. You can vote anytime online through electionz.com and all you need is your PIN and password from your voting form. You can also vote by post, in person, or by appointing a proxy to vote at the meeting on your behalf.
Are there other options for share simplification that LIC will consider if this proposal does not proceed?	No. The Board and our advisers have, over the last 18 months, considered a number of other alternatives in-depth and we believe that this proposal is the best one. If shareholders do not vote for it to the level required, we do not envisage returning with other alternatives for shareholders to consider.
Will an additional investment be required by me and if so how will that be made?	Yes, but you don't need to make any payment at this stage. For each nil paid share you own, an additional 'investment' of $1 will be required. This will be covered by the reinvestment of the dividend received on the nil-paid shares (and any ordinary shares held to meet the share standard), except if you leave the co-operative at which time you will then have to pay up the outstanding balance. You can also voluntarily pay up the outstanding balance at any time by notifying the co-operative.
Will I be paid a dividend on each of the nil paid shares?	Yes. The dividend paid on the nil paid share will be the same as on a fully paid ordinary share but will be used to pay up your nil paid shares into ordinary shares.
How long is it likely to take to convert my nil paid shares to fully paid ordinary shares using the dividend pay-out?	The level of future dividends cannot be predicted, so it is not possible to give a definitive answer on how long it will take to fully pay up all your nil paid shares.
Will I have to use all dividends I receive on my shares to pay up any nil paid shares or will I be able to keep part of it?	You will be required to use all dividends received on your nil paid shares and any other shares held to meet the share standard to pay them up to fully paid ordinary shares. You will receive a full dividend on any other shares and you can do what you wish with that money.
What is the nature of the $1 obligation placed on me for each nil paid share?	The $1 required to be paid up on each nil paid share is your obligation. Therefore, LIC would be able to force the payment of the $1 if LIC was ever in financial distress, and if you no longer meet the criteria to be a shareholder of LIC you will be required to pay any outstanding balance on your nil paid shares before selling your shares.

Q.	A.
Is there risk for me if the share price decreases?	Yes, there is risk. As is the case with investment shares now, ordinary shares going forward will be subject to market pricing. That means the share price will change to reflect LIC's performance as well as other economic factors. The changing market price will not affect the $1 you are required to pay on any nil paid shares, which may expose you to risk. See the next question for details.
What happens if the share price is less than the outstanding balance payable when I exit LIC/reduce custom and my shares are not fully paid up?	If you exit LIC, you will have to pay the outstanding balance (initially, $1 per nil paid share), even if the share price is less than it, before you sell your shares. If you do not sell your shares within the required timeframe and LIC sells those shares on your behalf then the outstanding balance will be deducted from the proceeds. For example, if there was an outstanding balance of $0.90 and the share price was $0.85, you would still be required to pay $0.90 and so would need to contribute an additional $0.05 per share. (If there is insufficient proceeds from a sale of your shares that LIC undertakes on your behalf, including any fully paid shares you sell at the same time, the balance will be charged to your LIC account.) If you reduce your custom and the number of shares required to meet the share standard reduces such that you hold more shares than you are required, then you can choose whether to keep the excess shares or sell them. If you continue to hold your nil paid shares, you do not need to pay them up other than through the dividends as explained above.
Will I have to pay extra if the market price on my nil paid shares increases above $1?	No, your payment obligation will be fixed at $1 per share and will not be affected by any changes in the market price of shares.
Do I benefit if the share price increases?	Yes you do. If you sell your shares at a market price that is above $1, you get the benefit of the increased market price.
What happens if the share price is above the outstanding balance when I exit LIC/reduce custom and my shares are not fully paid up?	If you exit LIC, you will have to pay the outstanding amount on your shares and then sell your shares. Where the price you receive on your shares is above the outstanding balance you owe on your nil paid shares, you will get to keep the difference. If you reduce your custom and no longer need to hold the nil paid shares to meet the share standard, you can choose to continue to hold them or you can pay the outstanding balance and then sell them, and you will retain the amount above the outstanding balance.

Q.

A.

Will the move to a single share structure increase the likelihood of LIC being opened-up to third party capital and a reduction in farmer control?

It is not the intention of the move to a single share structure to open LIC up to third party capital and, in fact, minimising changes to the co-operative structure is fundamental to the proposal. The proposal does not make any changes to who can become a shareholder in LIC - it will remain owned exclusively by New Zealand dairy farmer customers of LIC (except for a small shareholding by LIC employees, as is the case now).

If LIC wishes to introduce further equity funding from a third-party investor for LIC or LIC Agritechnology Company Ltd in the future, it would seek shareholder approval for it at that time. However, LIC may acquire interests in other companies, make further minority or majority investments, and form joint ventures from time to time as it grows and diversifies the business.

Why have we moved to market pricing and what are the implications of the ordinary shares being listed?

After the proposed restructuring, all of the shares will receive the same dividend linked to the financial outlook of LIC. This means that the value of all of LIC shares will change just as the investment shares do now. While, in theory, the Board could set a price and issue and redeem shares at that price, this would expose LIC to an unsustainable level of financial risk.

With the introduction of the spending bands, we also expect that most of the trading in the new LIC shares will be voluntary rather than customers buying shares because their spend is increasing, or selling because they are no longer customers. After considering this, the Board came to a view that continuing with the market based pricing mechanism that is currently used for the investment shares would be the best course of action. This will allow LIC customers to buy and sell shares amongst themselves whenever they wish and at a price they agree amongst themselves, either through private negotiation or on the share market.

How will the share structure change?

All existing co-operative shares and investment shares will be reclassified into ordinary shares. At implementation, there will be approximately 124.3 million fully paid ordinary shares on issue (split between current investment and co-operative shareholders), and approximately 18.9 million nil paid ordinary shares (held by co-operative shareholders).

Does the share standard change?

Yes. The share standard will increase by four times from the current level. The nil paid shares issued as part of the proposal will count towards the new share standard, meaning that all current shareholders will be at the new standard from day one (but with an outstanding payment obligation on the nil paid shares).

Q.	A.
With the share standard increase, what will happen if I, as an existing customer, want to increase my spend with LIC?	If you own investment shares, these will be reclassified into ordinary shares and you can use them to meet your share standard obligations, so you may not need to buy any more shares. We are also introducing spending bands (generally measured in \$5,000) for assessing the share standard. That means, you will not need to buy any additional shares unless your spending exceeds the top bracket of your band. For example, if you are currently in the \$15,000 to \$19,999 band, and your spending goes from \$15,500 to \$18,500, your shareholding requirement will not change.
Why have you introduced spending bands?	Under the current arrangements, co-operative shares were automatically issued and redeemed by LIC each year to match the share standard. Now that we are moving to a market based regime, we wanted to give you more flexibility and avoid the need for you to buy a very small number of shares each season as your spending changes. To address this, bands have been introduced so you only have to buy more shares if you go from one band to another.
Why have you changed the share standard to a three-year average?	We have done this because the increase in the share standard means it will cost more for customers to buy the shares they need when they become a customer or increase their qualifying spend. Using a three-year average spreads this increase in cost over three years. Of course, the share standard is the minimum number of shares that you must own so you are free to hold more shares (subject to a cap) or to buy any additional shares you need to meet the share standard at any time rather than waiting for the end of the three year period.
How is the new structure going to be implemented and what level of support is required?	The structure is implemented by way of reclassifying LIC's two classes of shares into a single class of ordinary shares through various changes to the constitution and other changes. Taken together, ultimately, the approval of the whole process requires the support of 75% of shares voting in each class (co-operative shares and investment shares).
Will there be an impact on existing LIC ownership and voting limits?	The existing 5% ownership limit for investment shares will apply to all shares under the proposal. However, it is proposed that the 1% voting restriction is to be removed from the Dairy Industry Restructuring Act (DIRA) (and consequently LIC's constitution) as the transfer of the National Database has been completed. At this time we do not know when the DIRA change will occur.
How does the Board expect to exercise its new powers to amend the share standard, minimum purchases amount, and qualifying products and services?	The proposal introduces flexibility for the Board to make changes to these key concepts, subject to prior consultation with the Shareholder Council. The Board has looked at other co-operatives and the proposed changes broadly replicate the flexibility that these other companies have in their own constitutions. It is not the Board's current intention to make any changes to these definitions in the future (except for the changes outlined in the Notice of Meeting).

Internet voting, postal voting & proxy appointments close
10:30am Monday 12 March 2018

Or

Vote in person at the Special Meeting
10:30am Wednesday 14 March 2018

Our Co-operative. Our Future. Your Vote.