

Kia ora,

Mr. Chairman, members of the board, Chief Executive, members of staff, shareholders and Shareholder councillors, it is my pleasure to present to you the Shareholder Council Report for 2018.

Changes within the Shareholder Council

The LIC Shareholders Council is made up of 21 regionally elected farmer representatives from throughout the country. These Councillors range from 50:50 sharemilkers, owner operators, equity partnership operators through to large multi farm owners. These Councillors also run differing farm systems from once a day milking through to Dairy NZ system 5 operators.

Over the last year we have had 3 Councillors retire. Neil Barnes retired in the Northern Taranaki ward and has been replaced by Mark Hooper. I would like to thank Neil for not only the work he did in his Ward but for LIC shareholders in general. Peter Le Heron retired after 14 years serving East Waikato shareholders on the Council. Peter has been replaced by Mark Bennis. Finally, our previous chair person Jenny Morrison retired after 12 years on the council with 6 of these years being the chair. Jenny represented the Hauraki Plains/Coromandel Ward. Thank you Jenny for all the work that you have done for the shareholders of LIC. Not only do we need to acknowledge Jenny for her service to the LIC shareholders but we need to thank her family for supporting Jenny over the last 12 years. Jenny has been replaced on the Council by Brian Pirie. A big thank you to all our retiring Councillors and a warm welcome to our new councillors Mark Hooper, Mark Bennis and Brian Pirie.

Over the last 12 months there has been a considerable amount of change within LIC.

The voting of and implementation of the new share simplification and the refreshed strategy.

Strategy.

The Council were pleased to have been involved and engaged in the development of the new strategy for LIC. For some time the Council have been saying to the Board and management that LIC needs to remain focused on our core business. For shareholders this refreshed strategy means that we are going to be well serviced with the best possible products and services for our New Zealand farming systems and conditions. Strengthening the core business of LIC is something that the Council has consistently argued for over a number of years.

Share Simplification.

The Shareholders Council spent a lot of time with Board members looking at scenarios in relation to how the new share simplification process will affect shareholders and possible ramifications to shareholders, both good and bad. We were pleased to see the share simplification vote passed in March paving the way forward for LIC to move to one class of share.

I would like to take this opportunity to thank the Shareholders Council for the contact that you all had with the shareholder base from around the country and your support of the Board in this share simplification process.

Key Performance Indicators.

The Council has for the last 4 years been monitoring the company's performance based on a set of KPI's. With the change in strategy, the Shareholder Council feel the time is right to review our KPI's to reflect the refreshed strategy. We are currently determining the new KPI's that will enable the Council to gain a better understanding of the performance of the company heading forward with its strategy.

Appointed Directors.

Clause 21 of the LIC constitution requires that the Shareholder Council consider any proposal for an appointed director and approve such an appointment if the Shareholder Council so decides.

The Shareholder Council is pleased to ratify the re-appointment of Ms Candace Kinser Reed for a further 3 year term.

The Shareholder Council would like to acknowledge the contribution that departing independent director Mrs. Abbey Foote has made to LIC and wish her well for the future.

Elected Directors.

Whilst the Shareholder Council does not have to ratify any of the elected farmer directors we would like to acknowledge Steve Poole for his contribution to LIC as a board member for the last 8 years. Thanks Steve. The council would like to welcome the newly elected director for the Central Region Mr. Ben Dickie. Welcome Ben.

Financial Performance.

The Shareholder Council have been closely monitoring the financial performance of the company. Over the last 2 years much has been talked about in terms of the PACE project or company transformation. As can be seen in this year's financials the cost of this has been revealed and is just over \$20.5 million. This is on top of the transformation costs of \$1.7 million in 2016/17 year. We as the Council and fellow shareholders question whether a similar result could have been achieved at a lower cost. The Council have been told and by looking through this year's financials we can see that the company's equity ratio has improved. Bank loans were \$32.1 million at the end of last year and are now down to \$19.6 million. This equates to a ratio of 71%. Yes, a strong position, but the sale of some assets contributed to this. The deer farm in the South Island and our herd testing and diagnostics lab at Riverlea Road were sold off and Riverlea Road has been leased back. The Council were told this money was used to retire debt.

With shareholders wanting new and innovative products and services from LIC, it is always pleasing to see large amounts of money being spent on research and development. However as I reported in my presentation to shareholders at the AGM in Invercargill last year, the amount of money being spent in research and development over the last 4 years has declined by \$3.7 million.

The spend over the last 4 years is:

14/15 \$16.9 million, 7.4% of revenue

15/16 \$16.9 million, 8% of revenue

16/17 \$13.9 million, 6.85% of revenue

17/18 \$13.2 million, 5.6% of revenue

Another interesting observation from the accounts is the performance of the core of the business, being both genetics and herd testing. Both these segments showed a big lift in revenue contributing to over half the revenue gain the company saw in the last 12-month period.

Over the last year the Shareholder Council visited the LIC Automation site. We got to tour through the premises and get a better understanding of what happens within that building from product design, to the building of prototypes and then commercial release of these products. We were encouraged by recent changes within this subsidiary.

We also went out to the innovation farm. We got to see first-hand how wet the farm had been during the early part of spring last year and the damage that occurred. We also got to see some of the new products that are coming out of LIC Automation being trialled on farm.

Mycoplasma bovis

The Council would like to commend the company for their pro-active response in being at the fore-front for the country in protecting our elite bulls, thus protecting and providing reassurance for our shareholder base.

The additional testing that happens to every batch of semen,

The purchase of over a million dollars' worth of additional herd testing equipment to provide peace of mind for shareholders that all of the equipment is sanitised before it returns out to farm.

The logistics involved in delivering herd testing equipment and then returning to collect the samples and equipment to eliminate any possible cross contamination.

The company has also developed tests to help MPI in the testing regime and eradication process.

Thank you from the Shareholder Council on behalf of shareholders in protecting both the LIC business, and our individual farm businesses.

In conclusion, the Shareholder Council would like to thank the members of the Senior Leadership Team and other members of staff who have provided the Council with information relating to LIC over the last year. We appreciate that there has been a lot of change that has occurred in LIC in the past couple of years, but having face to face meetings between senior management and a diverse group of farmer elected councillors provides meaningful discussions that keep enhancing LIC. Thank you.

The Board and Shareholder Council have worked more closely this year and this is essential in LIC continuing to evolve.

As farmers we are constantly having to change and evolve our own business practices due to environmental and social issues. LIC is no different. On shareholders behalf, LIC is continuing to provide shareholders new and exciting ways to enhance the productivity and profitability of their own businesses. For this we thank you.