



Livestock Improvement Corporation Limited (LIC)

## Annual Report

For the year ended 31 May 2019

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## **Introduction**

These financial statements set out the performance, position and cash flows of Livestock Improvement Corporation Limited ("LIC" or the "Company") and its subsidiaries (the "Group") for the year ended 31 May 2019.

LIC is domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996, listed as of balance date on the Alternative Board of the New Zealand Stock Exchange Limited ("NZAX") and as of 1 July 2019 listed on the Main Board of the New Zealand Stock Exchange Limited ("NZX"). LIC is an FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

These financial statements comply with NZ GAAP as appropriate for Tier 1, for-profit entities, NZIFRS and IFRS.

The functional currency of the Company and the presentation currency of the financial statements is NZD, with amounts rounded to the nearest thousand.

The financial statements have been prepared on a GST exclusive basis, with the exception of trade receivables and trade payables, which are reported inclusive of GST.

The key estimations and judgements made in preparing these financial statements are the valuation of the Bull team, the impairment testing of software and other intangible assets and the valuation of an Ordinary Share in relation to the July 2018 share structure simplification.

The accounting policies have been applied consistently with prior periods. NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue were adopted during in the current period, however the impact of these standards is immaterial. Accounting standards relevant to the Group that have been issued but are not yet effective, and have not been early adopted, include:

- NZ IFRS 16 Leases: which is effective for periods beginning after January 2019. This standard is expected to increase both assets and liabilities by \$13m to \$17m, with an immaterial impact on the profit/(loss) in any year.

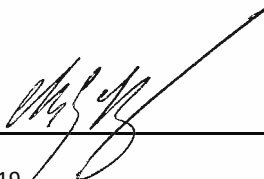
## Key results and position

		2019	2018
<b>STATEMENT OF RESULTS FOR THE YEAR</b>			
	Note		
Revenue	1	246,541	236,420
Purchased materials		(36,447)	(35,140)
People costs		(100,749)	(98,943)
Depreciation and amortisation	3,4	(26,804)	(28,295)
Research and development		(13,624)	(13,246)
One-off transformation costs		-	(20,665)
Other expenses	10	(41,653)	(33,816)
Net finance costs		(336)	(1,297)
Bull team revaluation	2	1,920	8,634
Fair value change in Nil Paid Share receivable	5	1,258	-
<b>Profit/(loss) before tax expense</b>		<b>30,106</b>	<b>13,652</b>
Tax expense	7	(7,936)	(4,387)
<b>Profit/(loss) for the year</b>		<b>22,170</b>	<b>9,265</b>
Hedge revaluations	5	146	216
Investment revaluations	5	3,707	3,138
Land and buildings revaluations	3,5	542	3,450
		<b>4,395</b>	<b>6,804</b>
<b>Comprehensive income for the year</b>		<b>26,565</b>	<b>16,069</b>
<i>Profit per Ordinary Share (excl. treasury stock)</i>		\$ 0.16	\$ 0.07

<b>Supplementary non-GAAP note to the results for the year:</b>			
<i>Profit/(loss) for the year</i>		22,170	9,265
<i>Less Bull team revaluation</i>		(1,920)	(8,634)
<i>Less Fair value change in Nil Paid Share receivable</i>		(1,258)	-
<i>Tax effect on Bull team revaluation</i>		538	2,418
<b>Underlying earnings</b>		<b>19,530</b>	<b>3,049</b>
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		\$ 0.14	\$ 0.02

		2019	2018
<b>STATEMENT OF POSITION AT YEAR END</b>			
Cash		4,529	2,521
Debtors	8	45,254	45,090
Bull team	2	122,728	120,808
Land, buildings and equipment	3	81,034	72,030
Software, goodwill and other intangible assets	4	73,781	74,011
Nil Paid Shares receivable	5	18,690	-
Other assets	8	34,719	27,265
<b>Total assets</b>		<b>380,735</b>	<b>341,725</b>
Creditors		28,590	24,253
Borrowings	5	4,661	19,636
Co-operative Control Shares	5	-	6,262
Deferred tax	7	40,838	40,945
Other liabilities	9	15,209	8,528
<b>Total liabilities</b>		<b>89,298</b>	<b>99,624</b>
Share capital	5	78,432	53,126
Retained earnings	5	169,765	150,141
Other reserves	5	43,240	38,834
<b>Total equity</b>		<b>291,437</b>	<b>242,101</b>

Director  
Date: 24 July 2019



Director  
Date: 24 July 2019



## Key results and position

		<b>2019</b>	<b>2018</b>
<b>STATEMENT OF CASH FLOWS FOR THE YEAR</b>	Note		
Customer receipts		247,470	227,082
Supplier payments		(190,454)	(188,855)
Tax payments		(2,143)	(2,231)
Other operating cash flows		294	1,834
<b>Net operating cash flows</b>	12	<b>55,167</b>	<b>37,830</b>
Software development		(18,994)	(21,214)
Net sales/(purchases) of land, buildings and equipment		(16,177)	8,958
Other investment cash flows		(1,639)	(6,162)
<b>Net investment cash flows</b>		<b>(36,810)</b>	<b>(18,418)</b>
Drawdown/(repayment) of bank debt		(15,000)	(12,500)
Issue of Co-operative Control Shares		1,130	914
Repurchase of Co-operative Control Shares		-	(889)
Interest paid on Co-operative Control Shares		-	(543)
Investment Share repurchases		-	(5,338)
Nil Paid Share receipts		60	-
Dividends paid		(2,535)	(2,043)
<b>Net financing cash flows</b>		<b>(16,345)</b>	<b>(20,399)</b>
<b>Movement in cash for year</b>		<b>2,012</b>	<b>(987)</b>
Cash at beginning of the year		2,521	3,458
Currency movement on cash holdings		(4)	50
<b>Cash at end of the year</b>		<b>4,529</b>	<b>2,521</b>

## STATEMENT OF CHANGES IN POSITION FOR THE YEAR

	Share capital	Retained earnings	Other reserves	Total equity
Balance at 1 June 2018	53,126	150,141	38,834	<b>242,101</b>
Profit/(loss) for the year	-	22,067	103	<b>22,170</b>
Dividends paid	-	(2,443)	(92)	<b>(2,535)</b>
Hedge revaluations	-	-	146	<b>146</b>
Investment revaluations	-	-	3,707	<b>3,707</b>
Land and buildings revaluations	-	-	542	<b>542</b>
Co-operative Control Shares converted to Ordinary Shares	7,392	-	-	<b>7,392</b>
Nil Paid Shares issued	17,914	-	-	<b>17,914</b>
<b>Balance at 31 May 2019</b>	<b>78,432</b>	<b>169,765</b>	<b>43,240</b>	<b>291,437</b>
Balance at 1 June 2017	58,464	141,285	33,664	<b>233,413</b>
Profit/(loss) for the year	-	9,111	154	<b>9,265</b>
Dividends paid	-	(1,900)	(143)	<b>(2,043)</b>
Hedge revaluations	-	-	216	<b>216</b>
Investment revaluations	-	-	3,138	<b>3,138</b>
Land and buildings revaluations	-	-	3,450	<b>3,450</b>
Transfer of asset revaluations on sale	-	1,645	(1,645)	-
Investment Share repurchases	(5,338)	-	-	<b>(5,338)</b>
<b>Balance at 31 May 2018</b>	<b>53,126</b>	<b>150,141</b>	<b>38,834</b>	<b>242,101</b>

## More details

### 1. Business analysis

The Group operates in four key operating segments, and across four key geographies as set out below. Figures in the following tables reflect information regularly reported to the Chief Executive on those key operating segments:

- NZ market genetics: provides bovine genetic breeding material and related services, predominately to dairy farmers
- Herd testing: herd testing and animal recording for pastoral farmers
- Farm software: data recording and farm management information services
- Farm automation: provides dairy automated equipment and technology

<b>2019</b>	<b>NZ market genetics</b>	<b>Herd testing</b>	<b>Farm software</b>	<b>Farm automation</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
External revenue	97,876	32,815	45,127	19,675	51,048	-	<b>246,541</b>
Inter-segment revenue	-	-	-	2,354	820	(3,174)	-
Total revenue	<u>97,876</u>	<u>32,815</u>	<u>45,127</u>	<u>22,029</u>	<u>51,868</u>	<u>(3,174)</u>	<b>246,541</b>
Depreciation & amortisation	(731)	(3,138)	(7,625)	(3,816)	(11,494)	-	<b>(26,804)</b>
Segment profit before tax	<u>66,744</u>	<u>11,406</u>	<u>28,025</u>	<u>6,591</u>	<u>35,262</u>	-	<b>148,028</b>
Bull team revaluation							1,920
One-off transformation costs							-
Unallocated amounts							<b>(119,842)</b>
Profit/(loss) before tax							<b>30,106</b>

<b>2018</b>	<b>NZ market genetics</b>	<b>Herd testing</b>	<b>Farm software</b>	<b>Farm automation</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
External revenue	92,943	31,369	43,924	20,177	48,007	-	<b>236,420</b>
Inter-segment revenue	-	-	-	2,217	1,520	(3,737)	-
Total revenue	<u>92,943</u>	<u>31,369</u>	<u>43,924</u>	<u>22,394</u>	<u>49,527</u>	<u>(3,737)</u>	<b>236,420</b>
Depreciation & amortisation	(1,033)	(2,828)	(7,060)	(2,893)	(14,481)	-	<b>(28,295)</b>
Segment profit before tax	<u>62,360</u>	<u>12,005</u>	<u>26,822</u>	<u>8,937</u>	<u>28,922</u>	-	<b>139,046</b>
Bull team revaluation							8,634
One-off transformation costs							<b>(20,665)</b>
Unallocated amounts							<b>(113,363)</b>
Profit/(loss) before tax							<b>13,652</b>

The Other segment includes international operations, diagnostics, animal health, research & development and support services. Unallocated amounts include personnel costs, administrative and other fixed costs and net finance costs.

<b>2019</b>	<b>New Zealand</b>	<b>Australia</b>	<b>Ireland</b>	<b>United Kingdom</b>	<b>Other</b>	<b>Total</b>
Revenues	223,855	8,001	4,117	5,209	5,359	<b>246,541</b>
Non-current assets	295,197	6,085	452	11,886	152	<b>313,772</b>
<b>2018</b>						
Revenues	219,268	6,942	2,888	3,382	3,940	<b>236,420</b>
Non-current assets	265,574	6,595	260	8,047	154	<b>280,630</b>

## More details

### 1. Business analysis (cont.)

The Group's significant subsidiaries are:

- **New Zealand:** LIC Agritechnology Company Limited (100%), LIC Automation Limited (100%)
- **Australia:** Livestock Improvement Pty Ltd (100%), Beacon Automation Pty Ltd (75%)
- **Ireland:** LIC Ireland Limited (100%), Livestock Improvement Automation Limited (100%)
- **United Kingdom:** Livestock Improvement Corporation (UK) Ltd (100%), LIC Automation UK Limited (100%)

The Group is not dependent on any one major customer in any of its reportable segments.

External revenues attributable to other segments include government grant income of \$2.925 million (2018: \$3.257 million).

### 2. Bull team

The bull team is the cornerstone asset of LIC's genetics business. The 968 total bulls (2018: 993 bulls) from which the bull team are selected are carried at their fair value, which is based on LIC's modelling of future cash flows from the bulls (a "Level 3 valuation"). Changes in their fair value are reported in profit.

The fair value from the bulls is partly dependent on the future sales mix of LIC's genetics products, which is historically strongly correlated to the Farmgate Milk Price paid by Fonterra Co-operative Group. The valuation is therefore most sensitive to this input and the WACC rate used to discount those future cash flows. The expected useful life of the existing bull team is also considered to be a key driver of the model.

	2019	2018
Opening balance	120,808	112,174
Bull team revaluation	1,920	8,634
Closing balance	<u>122,728</u>	<u>120,808</u>

*Key drivers of the model:*

Mean 3 year forward Fonterra Farmgate Milk Price*	\$6.67	\$6.00
WACC annualised post tax rate	5.94% - 6.68%	6.42% - 8.16%
Existing Sire Proving Scheme bull team size	180	180
Expected average bull useful life	4.9	4.7

\* This is the average of market analyst consensus

### 3. Land, buildings and equipment

Land and buildings are carried at fair value, determined by an independent valuer at least every three years (most recently as at 30 April 2018). Revaluations are reflected in the revaluation reserve. Equipment includes plant, vehicles, furniture and fittings and IT hardware, and is carried at depreciated cost. Buildings and equipment are depreciated on a straight-line basis over their estimated useful lives, and reviewed annually for any indications of impairment.

	2019				2018			
	Land	Buildings	Equipment	Total	Land	Buildings	Equipment	Total
Opening balance	32,269	25,358	14,403	72,030	31,405	30,981	16,004	78,390
Additions	3,162	3,865	9,265	16,292	-	504	7,167	7,671
Disposals	(3)	(113)	(335)	(451)	(1,010)	(6,106)	(2,542)	(9,658)
Depreciation	-	(1,724)	(5,854)	(7,578)	-	(1,746)	(6,240)	(7,986)
Revaluation	(11)	768	-	757	1,874	1,743	-	3,617
Foreign exchange impact	-	-	(16)	(16)	-	(18)	14	(4)
<b>Closing balance</b>	<u>35,417</u>	<u>28,154</u>	<u>17,463</u>	<u>81,034</u>	<u>32,269</u>	<u>25,358</u>	<u>14,403</u>	<u>72,030</u>
<i>Value if carried at cost</i>	12,843	19,364	N/A		9,684	18,807	N/A	
<i>Estimated useful lives</i>	N/A	10-40 years	3-10 years		N/A	10-40 years	3-10 years	

## More details

### 4. Software and other intangibles

#### (i) Software and other intangible asset balances

Software development expenditure is capitalised only where costs are directly attributable, and once the product or process is commercially feasible, the benefits are probable, and the Group intends to sell or use the completed software.

Software assets are amortised over their useful lives of up to seven years on a straight line basis, and reviewed annually for indicators of impairment.

Intellectual property (IP) assets are amortised over their estimated useful lives, being up to 13 years.

The genetic data in the LIC database increases in value with each successive generation. Both goodwill and the LIC database have indefinite useful lives. They are recognised at cost and are not amortised, are allocated to a cash generating unit ("CGU") and tested for impairment annually.

	2019				2018			
	Software & IP	Goodwill	Database	Total	Software & IP	Goodwill	Database	Total
Opening balance	56,998	6,513	10,500	<b>74,011</b>	56,286	6,320	10,500	<b>73,106</b>
Additions	19,204	-	-	<b>19,204</b>	21,146	-	-	<b>21,146</b>
Disposals	(82)	-	-	<b>(82)</b>	(129)	-	-	<b>(129)</b>
Amortisation	(19,226)	-	-	<b>(19,226)</b>	(20,309)	-	-	<b>(20,309)</b>
Foreign exchange impact	(84)	(42)	-	<b>(126)</b>	4	193	-	<b>197</b>
<b>Closing balance</b>	<b>56,810</b>	<b>6,471</b>	<b>10,500</b>	<b>73,781</b>	<b>56,998</b>	<b>6,513</b>	<b>10,500</b>	<b>74,011</b>

At reporting date, software includes \$17.290 million (2018: \$12.883 million) of work in progress, which is not being amortised until it is ready for use.

#### (ii) Impairment testing of intangible assets

Allocation of Goodwill and the LIC Database to CGUs:

	2019				2018			
	Farm software and herd testing CGU	Farm automation CGU	Other CGU	Total	Farm software and herd testing CGU	Farm automation CGU	Other CGU	Total
LIC database	10,500	-	-	<b>10,500</b>	10,500	-	-	<b>10,500</b>
Goodwill	-	4,144	2,327	<b>6,471</b>	-	4,144	2,369	<b>6,513</b>
	<b>10,500</b>	<b>4,144</b>	<b>2,327</b>	<b>16,971</b>	<b>10,500</b>	<b>4,144</b>	<b>2,369</b>	<b>17,013</b>

The LIC database and all goodwill recoverable amounts have been determined using value in use.

A discounted cash flow model is used for impairment testing based on expected results and capital expenditure from the current year forecast, Board approved budgets and a projection for further periods using terminal growth rate. A five year cash flow projection period is used for the Database and Other CGU and a ten year cash flow projection is used for the Farm automation CGU. The terminal growth rate used is 2.0% (2018: 2.0%) for the Database and Goodwill. The discount rate applied is reviewed and updated annually for movements in published Treasury risk-free rates and is 7.5% for the Database and 7.5-9.0% for Goodwill (2018: 8.5% for the Database and 8.5-10.0% for Goodwill).

## More details

### 5. Funding

The Group's funding comes from Share capital, retained earnings, other reserves and borrowings.

#### (i) Ordinary Shares

In July 2018 LIC's share structure was simplified and its two classes of shares, Investment Shares and Co-operative Control Shares, were brought together into a single class of Ordinary Shares. All Ordinary Shares have voting rights and the right to receive dividends based on the profits of the Company.

Prior to simplification both the Investment shares and Co-operative Control Shares were split into four shares for every share previously issued. The split was based on a price of \$4.00 per Investment share, as further described in Note 9. An independent appraisal report was obtained, which confirmed that the adopted Investment Share value of \$4.00 per share was fair to all shareholders. Parameters used by the independent appraiser include a normalised EBIT figure range of \$26m to \$28m, an EBIT multiple of 7 to 8, and a discount of 30% to reflect restricted voting rights, marketability and liquidity. A copy of the independent appraisal report is available on LIC's website. The resulting additional three shares following the split in Co-operative Control shares were issued unpaid (see part(ii)) and totalled 22,176,045 shares.

The conversion of the Co-operative Control shares to Ordinary shares resulted in the extinguishment of the Co-operative Control Share liability of \$7.392 million, with a corresponding increase in share capital.

At reporting date there were 142,344,836 Ordinary Shares on issue, excluding 5,337,584 shares held as treasury stock (2018: 28,194,194 Investment Shares and 6,262,489 Co-operative Control Shares, excluding 1,334,396 Investment Shares held as treasury stock).

#### (ii) Nil Paid Shares

Ordinary Shares includes both fully paid shares and shares on which full payment has not yet been made. These Nil Paid Shares must be paid up over time by Shareholders via a combination of dividend payments forgone, voluntary payments and payments made on exit as a Shareholder. At year-end the outstanding amount on Nil Paid Shares has been recorded in the Statement of Position as a receivable, valued using a discounted cash flow model. The model uses assumptions on expected future dividends, voluntary and compulsory payments and applies a discount rate of 5.7%.

#### (iii) Other reserves and equity

	Hedge revaluation reserve	Investment revaluation reserve	Land & building revaluation reserve	Non- controlling interests	Other reserves
Balance at 1 June 2018	(49)	4,766	33,879	238	<b>38,834</b>
Profit/(loss) for the year	-	-	-	103	<b>103</b>
Dividends paid	-	-	-	(92)	<b>(92)</b>
Revaluations	146	3,707	542	-	<b>4,395</b>
Transfer of asset revaluations on sale	-	-	-	-	-
Non-controlling interest movement	-	-	-	-	-
<b>Balance at 31 May 2019</b>	<b>97</b>	<b>8,473</b>	<b>34,421</b>	<b>249</b>	<b>43,240</b>
Balance at 1 June 2017	(265)	1,628	32,074	227	<b>33,664</b>
Profit/(loss) for the year	-	-	-	154	<b>154</b>
Dividends paid	-	-	-	(143)	<b>(143)</b>
Revaluations	216	3,138	3,450	-	<b>6,804</b>
Transfer of asset revaluations on sale	-	-	(1,645)	-	<b>(1,645)</b>
Non-controlling interest movement	-	-	-	-	-
<b>Balance at 31 May 2018</b>	<b>(49)</b>	<b>4,766</b>	<b>33,879</b>	<b>238</b>	<b>38,834</b>

#### (iv) Bank debt

Bank loans are secured by a Negative Pledge granted to Westpac and Rabobank over certain New Zealand-based subsidiaries. All debt outstanding at 31 May 2019 is considered current.



More details

**6. Liquidity and interest rate risk**

*(i) Liquidity risk*

Liquidity risk is the risk of having insufficient liquid assets to pay the Group's debts as they fall due. The Group manages the risk by monitoring forecast cash flows and holding sufficient bank facilities to meet the Group's needs. The contractual maturity of the Group's funding is shown below.

	2019				2018			
	Demand to 6 months	6 months to 1 year	1 year plus	Total	Demand to 6 months	6 months to 1 year	1 year plus	Total
Borrowings	4,661	-	-	<b>4,661</b>	19,636	-	-	<b>19,636</b>
Co-operative Control Shares	-	-	-	-	6,262	-	-	<b>6,262</b>
Creditors	28,590	-	-	<b>28,590</b>	24,253	-	-	<b>24,253</b>
	<b>33,251</b>	-	-	<b>33,251</b>	<b>50,151</b>	-	-	<b>50,151</b>

The Group has bank funding facilities in place until June 2020 and expects to be able to meet any obligations which fall due.

*(ii) Interest rate risk*

Interest rate risk is the risk that changes in interest rates will impact the Group's results or position. The weighted average interest rate paid on borrowings in 2019 was 3.89% (2018: 3.60%). A 1% increase in interest rates would reduce profit after tax by approximately \$0.146 million (2018: \$0.245 million).

## More details

### 7. Tax

Tax expense is recognised for items arising this year that are either taxable this year (current tax) or in other years (deferred tax). The main items giving rise to deferred tax are revaluations of the Bull team and Land & Buildings.

<i>(i) Tax expense</i>	<b>2019</b>	<b>2018</b>
Profit/(loss) for the year	22,170	9,265
Tax expense	7,936	4,387
Profit/(loss) for the year before tax	<u>30,106</u>	<u>13,652</u>
Tax at 28% NZ company tax rate	8,430	3,823
Effect of overseas income	212	19
Non-deductible expenses	(23)	789
Adjustments from prior periods	(683)	(244)
<b>Tax expense</b>	<u>7,936</u>	<u>4,387</u>
<i>Current tax expense</i>	8,258	2,750
<i>Deferred tax expense</i>	(322)	1,637
<i>Imputation credits available</i>	18,792	17,385

<i>(ii) Deferred tax liability</i>	<b>As at 31</b>			<b>As at 31</b>			<b>As at 31</b>
	<b>May 2019</b>	Through	Through	<b>May 2018</b>	Through	Through	<b>May 2017</b>
		Profit/(loss)	Other reserves		Profit/(loss)	Other reserves	
Livestock revaluation	33,966	801	-	33,165	2,390	-	30,775
Land & buildings revaluation	5,300	(885)	215	5,970	(838)	167	6,641
Other	1,572	(238)	-	1,810	85	-	1,725
Total	<u>40,838</u>	<u>(322)</u>	<u>215</u>	<u>40,945</u>	<u>1,637</u>	<u>167</u>	<u>39,141</u>

### 8. Debtors and other assets

#### *(i) Debtors*

Bad debts of \$0.134 million have been expensed during the year (2018: \$0.038 million), and 97% of trade receivables are not past due (2018: 98%).

<i>(ii) Other assets</i>	<b>2019</b>	<b>2018</b>
Inventories	16,356	12,739
Investments	17,538	13,780
Derivatives used for hedging	89	-
Other livestock	736	746
	<u>34,719</u>	<u>27,265</u>

Inventories utilised and expensed during the period amounted to \$23.062 million (2018: \$21.022 million). Inventories written off in 2019 totalled \$0.027 million (2018: \$0.003 million).

### 9. Other liabilities

	<b>2019</b>	<b>2018</b>
Provisions for employee entitlements	4,740	4,483
Provision for sire proving rebate	2,739	2,772
Derivatives used for hedging	-	57
Provision for tax	6,533	840
Other	1,197	376
	<u>15,209</u>	<u>8,528</u>

Following the approval by Shareholders of the share simplification described in Note 5, a small number of Shareholders elected to exercise their minority buy-out rights arising from the proposal under the Companies Act 1993 ("Act"). On 19 April 2018 LIC bought back 1,334,396 Investment Shares as a result of the Shareholders exercising their rights. LIC holds these shares as treasury stock. Those Shareholders that exercised their minority buy-out rights have objected to the price proposed by LIC, being \$4.00 per share, and the final purchase price to be paid by LIC for the affected shares will therefore be determined in an arbitration. The \$4.00 price was the relative value attributed to each Investment Share under the share simplification proposal accepted by Shareholders. Each Investment Share was reclassified into four fully paid Ordinary Shares with a relative value of \$1.00 per share. No provision has been made for any additional payments in these financial statements as LIC believes the price paid was fair and reasonable and is supported by independent valuations.

## More details

### 10. Other expenses

Other expenses includes the following amounts paid to the Group's auditors, KPMG:

	<b>2019</b>	<b>2018</b>
Audit of the financial statements	147	136
Other assurance work	6	6
Audit-related services	-	42
	<u><b>153</b></u>	<u><b>184</b></u>

### 11. Transactions with related parties, Directors and Management

The Group has had the following short term transactions with key Management and Directors during the year, noting sale of goods and services were under normal trade terms:

	<b>2019</b>	<b>2018</b>
Remuneration of key Management and Directors	3,711	4,249
Sale of goods and services to key Management and Directors	597	669

Directors of the Company and their related entities hold 446,511 Ordinary Shares, representing 0.3% of shares on issue (2018: 17,970 Co-operative Control Shares and 93,166 investment Shares; representing 0.3% and 0.3%).

There are no loans or deposits with related entities outside of the consolidated group.

### 12. Reconciliation of the Profit/(loss) for the year to Net operating cash flows

	<b>2019</b>	<b>2018</b>
<b>Profit/(loss) for the year</b>	<b>22,170</b>	<b>9,265</b>
Adjusted for non-cash items:		
Depreciation and amortisation	26,804	28,295
Bull team revaluation	(1,920)	(8,634)
Working capital movements and other non-cash items	8,113	8,904
<b>Net operating cash flows</b>	<u><b>55,167</b></u>	<u><b>37,830</b></u>

### 13. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	<b>2019</b>	<b>2018</b>
Less than one year	4,033	3,468
Between one and five years	11,046	8,074
More than five years	2,507	2,989
	<u><b>17,586</b></u>	<u><b>14,531</b></u>

The Group leases a number of facilities and vehicles under operating leases. The leases vary in length depending on location, fit out and business need. During the year ended 31 May 2019 \$2.150 million was recognised as operating lease expense (2018: \$1.683 million).

### 14. Subsequent events

After 31 May 2019 a dividend of 10.98 cents per Ordinary Share was proposed by the Directors in relation to the 2019 year, or \$15.6 million (2018: 1.71 cents per Ordinary Share, or \$2.4 million).



# Independent Auditor's Report

To the shareholders of Livestock Improvement Corporation Limited

## Report on the audit of the consolidated financial statements

### Opinion

In our opinion, the accompanying consolidated financial statements of Livestock Improvement Corporation Limited (the 'company') and its subsidiaries (the 'group') on pages 1 to 10:

- i. present fairly in all material respects the Group's financial position as at 31 May 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of position as at 31 May 2019;
- the consolidated statements of results for the year, changes in position for the year and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other assurance services to the group in connection with certification of the Group's grant funding. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.



### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$1.2 million.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

### The key audit matter

### How the matter was addressed in our audit

#### Valuation of the bull team

*Refer to Note 2 to the Financial Statements.*

Determining the valuation of the bull team, which is the core asset to both the domestic and international genetics operations of the Group, is a highly judgmental and complex area. Management prepare a model that projects the number of straws that the current team can produce and will be sold over the life of the bulls. The valuation model factors the cost of rearing, animal and farm management costs, and forecasts of processing costs to make sales. The calculated surplus is discounted to reflect the time value of money.

Our audit procedures included, among others, valuation specialist review of the model and challenge of management's significant assumptions such as:

- Projected sales volumes and pricing;
- Discount rates applied; and
- Useful life of the bulls.

We compared sales and costs growth, and inflation rates to historical data and published market forecast data where available. We reviewed market and industry data to assess management's discount rate applied to the final model. We assessed the life of the bulls against historical data. We found the inputs to be comparable.

We also considered management's forecasts in previous years and found it to be sufficiently accurate based on actual results achieved.

#### Carrying value of intangible assets

*Refer to Note 4 to the Financial Statements.*

The Group has two categories of intangible assets with indefinite useful lives:

- Goodwill of \$6.3m, arising primarily from acquisitions made to facilitate growth and diversification of the Group's farm automation products; and
- The LIC Animal Database of \$10.5m which is used by the Group to deliver its Herd Testing and Farm Software services.

The three significant cash generating units (CGUs) holding these assets are tested annually for impairment using discounted cashflow models to determine the recoverable amount.

We challenged management on the reasonableness of the assumptions included in the cashflow forecast models, with particular attention paid to the following:

- Assessing management's future sales and growth assumptions compared to external market and industry data and historical performance of each of the CGUs. We used our own valuation specialists to assist us with the consideration of discount rates;
- Comparing management's previous forecasts to actual results achieved in each CGU; and
- Performing sensitively analysis around the key assumptions used in the model.

Our audit procedures also included determining whether the allocation of goodwill to each CGU was appropriate.

Our testing supported management's conclusion that there is no impairment.

## The key audit matter

## How the matter was addressed in our audit

The annual impairment tests performed by the Group were significant to our audit due to the magnitude of the intangible assets and because the discounted cashflow models involve judgment about the future performance of the CGU's, including considering future economic and market conditions.

## Share simplification

*Refer to Note 5 to the Financial Statements.*

LIC has simplified its share structure by converting both Co-operative Control shares and Investment shares into a single class of ordinary shares.

A key judgement arising from the simplification is the fair valuation of the Co-operative Control shares and Investments shares, which impacts on any gain/loss on conversion to ordinary shares.

Our audit procedures included, among others, specialist review of external valuations and challenge of the significant assumptions such as:

- Normalised EBIT figure,
- EBIT multiple, and
- Discount to reflect restricted voting rights, marketability and liquidity.

We recalculated the normalised EBIT figure based on review of historical results. We reviewed market and industry data to assess the EBIT multiple applied in the valuations. We assessed the discount against our knowledge of the industry and the trading history of LIC.

Our testing supported management's accounting treatment.

## Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the Directors Report and the Governance Report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



## Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



## Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.


A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is **Matthew Prichard**

For and on behalf of



Auckland

24 July 2019

## Directors' report

### **Directors' Report 2018-19**

#### **LIC result reflects performance, profitability turnaround**

The LIC Board is pleased to present the co-op's financial results for the year ending 31 May 2019. The result is in line with expectations and reflects a turnaround in performance and profitability.

With a significant increase in profitability, as well as new records in strength of balance sheet, operating cash flow, and total revenue, the result is further evidence LIC is in great financial shape.

It means we can not only deliver a solid dividend to shareholders – the largest since 2013 – but the business can also continue its significant investment in R&D, digital transformation and consider new options and opportunities to deliver innovation-led growth.

This turnaround is a success story for LIC, after reporting a loss in 2016.

Our focus has been on delivering what we said we would do to improve the company's performance. This is important at a time when dairy farmers need certainty and trusted partners to help them navigate the rapidly changing domestic and global industry.

LIC is the DNA of New Zealand's dairy industry, providing superior genetics and agri-tech solutions to continually improve the productivity and profitability of your farm.

We have to make sure that in the data-driven future of global dairy, LIC and our farmers are in a position to be the disruptors, not the disrupted. That takes financial strength, high-performance and a clear focus on the innovations needed to keep our farmers ahead of the game.

The major strategic projects we have completed since 2016 to shape LIC into a modern, progressive co-op have enabled this year's strong result. Importantly, we believe the results are sustainable and we are confident that we will continue to build on them in the coming years.

#### **Innovation-led growth**

While 2017-18 was a year of transformation, including capital restructure, and a strategy refresh, 2018-19 was about embedding LIC's new innovation-led growth strategy with an ongoing focus on the core NZ dairy industry.

LIC's investment in R&D remained high at \$13.6M, or 5.5% of revenue, which continues to be well above the primary sector average of around 1%. We also received additional funding from MBIE and MPI to boost two key R&D projects aimed at driving improvements in the health and wellbeing of the national herd and more sustainable milk production.

#### **Protecting the national herd from *Mycoplasma bovis* (M. bovis)**

More than \$800,000 was invested in new measures to protect its customers from the M. bovis cattle disease, including a world-leading daily testing regime for its bulls and significant changes to its herd testing operations. The co-op absorbed these costs to avoid additional price increases in 2018-19. An additional 64ha of farm land was also purchased in the Waikato to increase our biosecurity quarantine facilities.

#### **Other business highlights**

Sales from core products including artificial breeding (AB) and herd testing were strong, with 5.68 million AB straws sold and 10.96 million milk samples processed. Demand for animal health testing was also high, particularly Johne's disease testing, and international business sales of genetics and automation technology continued to grow, particularly in the United Kingdom and Ireland.



## Directors' report

Genetics sales in New Zealand saw farmers seeking to add further value to their herd by extending their AB period and with increased uptake of A2A2 genetics and genomic bull teams which provides access to elite new genetics earlier. The 'A2 bull team', introduced in 2018 to meet the growing demand of A2 milk, accounted for 10% of AB sales in its debut season, as more farmers look to breed towards an A2A2 herd.

During the year LIC also continued to improve its SPACE service and make it available to more farmers around the country. The satellite pasture management service, which offers a free trial period, now has more than 1000 customers registered for the annual subscription.

Previous strategic investments - in farm financial management software provider, Figured (2014), Australian heat detection aid manufacturer, Beacon (2015), and UK-based NMR (2017) - also made good gains in 2018-19 and this is reflected in the result.

### **Outlook**

We are confident these results are sustainable and will be built on in the coming years.

We expect underlying earnings to increase to \$21-25 million in 2019-20, assuming no significant climate event or milk price drop takes place between now and then nor any major impacts from biosecurity threats such as M. bovis.

Thank you for all your support over the last 12 months, and for backing us in recent years to make the necessary changes to turn this business around.

We look forward to another positive and busy twelve months.

## Corporate Governance Report under NZX

### Corporate Governance Information

On LIC's website you will find the following corporate governance documents referred to in this section:

- Constitution
- Code of Conduct and Ethics
- LIC Board Charter
- Audit, Finance & Risk Committee Charter
- Remuneration and Appointment Committee Charter
- Disclosure Committee Charter
- External Audit Independence Policy
- Share Trading and Disclosure Policy
- Continuous Disclosure Policy
- Diversity and Inclusion Policy
- Dividend Policy

### Corporate Governance Statement

LIC is a New Zealand Co-operative Company. Its shares are quoted on the New Zealand Stock Exchange (NZX). We are reporting against the Principles and Recommendations of the NZX Corporate Governance Code 2019 (the NZX Code), although we note that during the period that this report applies, LIC was listed on the NZX Alternative Market (NZAX). This statement is current to 31 May 2019, and has been approved by the Directors of LIC.

LIC is primarily involved in the development, production and marketing of artificial breeding, genetics, farm software, farm automation and herd testing services in the New Zealand dairy industry, the control and maintenance of the LIC database and the execution of research relating to dairy herd improvement.

### Co-operative Principles

The Company is committed to the following co-operative principles:

- 1 The Company will remain a Co-operative Company;
- 2 The Company is controlled by Users of the Company's qualifying products and services;
- 3 Core products and services are made available to all Shareholders at fair commercial prices;
- 4 Products and services which benefit Shareholders and which otherwise might not be made available, are developed and made available to Shareholders, provided that the company receives a commercial return; and
- 5 Shareholders co-operate with the Company and each other, including the sharing of information to promote their common interests.

## Corporate Governance Report under NZX

**NZX Code Principle 1, Code of Ethical Behaviour: Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.**

### **Code of conduct and ethics**

LIC's Code of Conduct and Ethics sets out the ethical and behaviour standards expected of Directors and employees of LIC. The Policy is reviewed biennially (or as required) to keep it up to date with employee and stakeholder expectations. Directors and employees are also expected to uphold LIC's values.

### **Whistleblowing**

The Code of Conduct and Ethics and the Company's Employment Relations Policy, which are available to employees on LIC's intranet, include guidance on specific action to be taken by a person who suspects a serious wrongdoing. A protected disclosure can be made to the Company Secretary or a Director.

### **Avoiding conflicts of interest**

The Code of Conduct and Ethics includes direction on disclosing and managing conflicts of interest. We update the Board at each meeting on changes in interests and any potential conflicts. The Company Secretary holds a Directors' interests register and the Board reviews the register at least annually. The register records relevant transactions and disclosures of interests. A copy of the interests register is on page 29.

### **Trading in securities**

The Company has a Share Trading and Disclosure Policy for Directors, Shareholder Councillors, Restricted Persons and other Employees wanting to deal in the securities of the Company.

The Policy outlines:

- (a) when Directors, Shareholder Councillors, Restricted Persons and other Employees of the Company may deal in the shares of the Company;
- (b) procedures to reduce the risk of insider trading; and
- (c) disclosure requirements.

The Policy records the Company's procedures for compliance with the Financial Markets Conduct Act 2013 and other relevant legislation/regulation for the trading and disclosure of trading in the shares of the Company.

The Policy aims to protect Directors, Shareholder Councillors, Restricted Persons and Employees, as well as the Company and the Company's Shareholders, against acts of insider trading that could disadvantage holders of the Company's shares.

An Elected Director must hold the minimum shareholding requirement and can hold additional shares in accordance with the Company's Constitution.

## Corporate Governance Report under NZX

**NZX Code Principle 2, Board composition and performance: To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.**

### Role of the Board

Legislation, the NZX Listing Rules and the Constitution establish the Board's responsibility and include provisions for how the Co-operative will operate. The structure of the Board and its governance arrangements are set out in the Company's Constitution, and in the Board's written Charter setting out the Board and Management's roles and responsibilities. The Board is responsible for the direction and control of LIC's activities. It is committed to the guiding values of the Company: integrity, respect and innovation to improve products and service to its Shareholders.

### Board composition

The Board is comprised of seven Elected Directors and up to three Appointed Directors. Elected Directors are elected by Shareholders within the region each Director represents (four regions in total) and hold office for a period of four years. The term coincides with the Rotation Schedule. All recommendations and deliberations on the selection of Appointed Directors are undertaken by the full Board. Appointed Directors hold office for up to three years. A retiring Director is eligible for re-election or re-appointment as a Director of the Company. All Appointed Directors have entered into written agreements setting out the terms of their engagement and it is intended that all future Elected Directors will also do so (but they have not done to date, given their regional election).

In relation to the nomination and appointment of Directors, proper checks are undertaken. This includes the provision of key information about candidates to Shareholders and/or the Board, such as relevant skills, experience and directorships; and any material adverse information of which the entity has become aware.

Elected Directors are Murray King (Chair), Gray Baldwin, Murray Jagger, David Jensen, Dr Alison Watters, Ben Dickie and Matt Ross.

Appointed Directors are Candace Kinser, Tim Gibson and Sophie Haslem.

The Director elected by the Northland region (Murray Jagger) retired in 2019. Two nominations were received for the position on the Board, resulting in Kenneth Hames being elected by the Shareholders for a four year term, effective 1 June 2019. In 2019, the Board introduced an important change to the process for assessing candidates nominated to be an Elected Director. Each candidate can opt to undertake an assessment by an external party, the results of which assists Shareholders in reaching a decision on the most suitable candidate to be a Director. In 2019 both candidates opted to undertake the external assessment.

Appointed Director Abby Foote resigned with effect from 17 October 2018. Sophie Haslem was selected as an Appointed Director on 7 December 2018.

### Board responsibilities

The Board is responsible for setting the strategy of LIC and monitoring delivery against that strategy. In July 2018 the Board launched a new innovation-led growth strategy to shareholders which advised shareholders that LIC would:

- Focus 60% of its activity on optimising the core – driving value from the current business
- Focus 30% of its activity on enhancing the core – growth through innovation
- Focus 10% of its activity on capturing value beyond the core – leveraging existing capabilities for profitable growth outside pastoral dairy

Full details of the strategy are available on LIC's website.

The Board is also responsible for approval of significant expenditures, policy determination, appointment of Directors, and stewardship of the Co-operative's assets. Management is responsible for implementing the strategic objectives, operating within the risk appetite we have set as a Board, and for all other day-to-day running of the Company. We delegate the day-to-day leadership and management of the Company to the Chief Executive (CE). The delegations are set out in the Board Charter and in a Delegated Authority framework, which also sets out authority levels for types of commitments that the Company's management can make. A copy of the Board Charter is available on LIC's website.

The Board and the Shareholders shall not, except with the written consent of the Minister of Primary Industries, or other relevant Minister, exercise any of their rights, directions and powers under, or alter the Constitution so as to cause or permit the Company to cease to be a Co-operative supplying goods and services to Shareholders.

## Corporate Governance Report under NZX

### Meetings

The Board met seven times in 2018/19 with three additional strategy session days.

### Diversity and Inclusion Policy

The Company fosters an inclusive working environment that promotes employment equity and workforce diversity at all levels, including within the Senior Leadership Team and the Board. The Diversity and Inclusion Policy is available on LIC's website.

LIC is in the process of setting objectives in relation to the Diversity and Inclusion Policy. The year-end gender composition of the Board and the Senior Leadership Team were:

	2019		2018	
	Male	Female	Male	Female
LIC Board	7	3	7	3
LIC Senior Leadership	8	1	8	2

### Director training

Directors each undertake appropriate education to remain current in how to best perform their duties as directors. Directors maintain memberships of relevant bodies such as the Institute of Directors, and receive information individually and from Management in relation to specific issues relevant to LIC, the markets in which it operates and the dairy industry.

Individual development plans are agreed for each Director following external assessments and a Board development and engagement plan is actively used. The Board also engaged in the following opportunities for ongoing development (in addition to their individual commitments to ongoing professional development):

- The Chair attended a international leadership course
- The Board have actively engaged with external businesses to develop in relation to topics such as digital and change transformation
- Budget is allocated for training for Directors annually
- An external consultancy assisted the Board in the process leading to the 2018 Strategy refresh

### Board performance

The Board uses an external party to assist with reviewing the performance of the Board and its committees. The last review took place in 2018 with the external party reporting back its findings to the Board for discussion and implementation as required.

### Director Independence

Directors are appointed in accordance with the Constitution, as outlined above. The Appointed Directors are not co-operative members, as they are appointed to bring external expertise to the Board. For the purposes of the Listing Rules the Board has assessed all of the Directors to be independent with the exception of Gray Baldwin who may be perceived to not be independent due to his role as a Director of Trinity Lands Limited, LIC's largest shareholder. While a number of the Directors are co-operative members and acquire goods and services from LIC, the Board does not consider them to have a relationship that could reasonably influence, or be perceived to influence, their ability to bring an independent view to decisions in relation to LIC, to act in the best interest of LIC or to represent the interests of LIC Shareholders generally.

### Chair

LIC's Chair is an independent Director. LIC's Board also endorses the separation of the roles of the Chair and Chief Executive (CE) and a Director should not simultaneously hold both roles, and this is the case currently. However, to ensure appropriate management where necessary, the Company Constitution sets out an exception to this whereby the Board may appoint a Director to assume the post of CE concurrently on a temporary basis when the post of CE is vacant, for a period of not longer than six months. This can be extended, only where the position of CE is still vacant for a further maximum period of six months. At the termination of that further period, that Director shall resign from the Board.

## Corporate Governance Report under NZX

**NZX Code Principle 3, Board committees: The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.**

### Committees

Our Board committees review and consider in detail the policies and proposals developed by Management and make recommendations to the Board. They do not take action or make decisions on behalf of the Board unless specifically mandated to do so. A committee or an individual Director can engage independent legal counsel at LIC's expense with the prior approval of the Chairman.

The Board will occasionally appoint a committee of Directors to consider or approve a specific proposal or action if the timing of meetings or availability of Directors means the matter cannot be considered by the full Board. Their deliberations and decisions are reported back to the Board no later than the next meeting.

Due to our Co-operative Company status and Constitution based shareholding restrictions, it is not necessary to have takeover protocols in place. Under LIC's Constitution no person shall hold a relevant interest of more than 5% of the total number of ordinary shares in the Company

### Audit, Finance & Risk Committee

A Sub-Committee of the Board, the Audit, Finance & Risk Committee ensures the Company complies with its audit, financial and risk management responsibilities. It operates under a written charter, which is available on the LIC website. Members are: Sophie Haslem (Chair), Murray King, Gray Baldwin, David Jensen, Murray Jagger and Ben Dickie. The Audit, Finance & Risk Committee was chaired by Appointed Director, Abby Foote until her resignation. Elected Director David Jensen was subsequently acting chair until the appointment of Sophie Haslem, Appointed Director. A majority of the current members of the Committee are considered to be independent. Employees only attend audit committee meetings at the invitation of the audit committee.

The Committee meets at least four times a year and met five times in 2018/19.

### Remuneration and Appointment Committee

A Sub-Committee of the Board, the Remuneration and Appointment Committee approves appointments and terms of remuneration of the Chief Executive, oversees the people policies for LIC and also considers and assists the Board in its director appointment process, and if appropriate recommends to the Board any wage and salary percentage adjustments for the Co-operative's employees. It operates under a written charter, which is available on the LIC website. Current members are: Tim Gibson (Chair), Murray King, Dr Alison Watters, David Jensen and Matt Ross. All current members of the Committee are considered to be independent. Management only attends remuneration committee meetings at the invitation of the remuneration committee.

The Committee meets at least four times a year and met four times in 2018/19.

### Disclosure Committee

A Sub-Committee of the Board, the Disclosure Committee assists the Board and Company in ensuring that all material information is identified, reported for review by the Committee, and if required, disclosed in a timely manner to the NZX. It operates under a written charter, which is available on the LIC website. Current members are: Murray King (Chair) and Sophie Haslem. Disclosure Committee meetings are attended by key Senior Managers, including the CE and/or Chief Financial Officer.

The Committee meets as and when required and met three times in 2018/19.

## Corporate Governance Report under NZX

### Board and Committee Attendance

	Board		Board Strategy Days		Audit, Finance & Risk Committee		Remuneration & Appointments Committee		Disclosure Committee	
	<i>Number of meetings</i> <sup>1</sup>	<i>Attendance</i>	<i>Number of days or part days</i>	<i>Attendance</i>	<i>Number of meetings</i>	<i>Attendance</i>	<i>Number of meetings</i>	<i>Attendance</i>	<i>Number of meetings</i>	<i>Attendance</i>
Gray Baldwin	7	7	3	3	5	5				
Ben Dickie	7	6	3	2	4	3 <sup>2</sup>				
Abby Foote <sup>3</sup>	4	3	1	1	2	2			2	2
Tim Gibson	7	7	3	3			4	4		
Sophie Haslem <sup>4</sup>	3	3	2	2	3	3			1	1
Murray Jagger	7	7	3	3	5	5				
David Jensen	7	7	3	3	5	5	4	4		
Murray King	7	7	3	3	5	5	4	4	3	3
Candace Kinser <sup>7</sup>	7	7	3	3						
Matt Ross	7	7	3	3			3 <sup>6</sup>	3		
Alison Watters	7	7	3	3		1 <sup>5</sup>	4	4		

- 1 The number of meetings is the number that the Director is expected to attend either as a Board member or as a member of the relevant Committee
- 2 Ben Dickie joined the Audit, Finance & Risk Committee in August 2018
- 3 Abby Foote retired from the Board of LIC on 17 October 2018
- 4 Sophie Haslem was appointed to the Board of LIC in December 2018
- 5 Alison Watters attended the Audit, Finance & Risk Committee as an observer
- 6 Matt Ross joined the Remuneration and Appointments Committee in August 2018
- 7 Candace Kinser chaired four meetings of LIC's Technology Advisory Board

## Corporate Governance Report under NZX

**NZX Code Principle 4, Reporting and disclosure: The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.**

### Financial reporting

The Board is responsible overall for ensuring the integrity of the Company's reporting to Shareholders, including financial statements that comply with generally accepted accounting practice.

The Board's Audit, Finance & Risk Committee oversees the quality, reliability and accuracy of the financial statements and related documents. The committee's role is described fully in its Charter. In doing so, the committee makes enquiries of Management and the external auditors, including requiring Management representations, so that the Directors can be satisfied as to the validity and accuracy of all aspects of LIC's financial reporting.

### Non-financial reporting

LIC has not adopted a formal environmental, social and governance (ESG) reporting framework at this time. We are working towards providing integrated reporting that is relevant to our stakeholders, including environmental, economic and social sustainability factors and practices. LIC's year-end market statement includes a description of LIC's performance against strategic objectives and any key measurements.

LIC has been improving the lives of our dairy farmers for more than 100 years: innovation and co-operation are at the heart of what we do. We have made breakthroughs in genetics, reproduction and automation. As a result New Zealand herds have some of the highest rates of genetic gain in the world and our farmers enjoy a high level of insight into herd management due to their voluntary participation in herd improvement. We play an important role in assisting dairy farmers to adapt to changing environmental requirements and ensure sustainability of the industry.

LIC supports the industry, rural communities and our farmers by sponsoring a variety of initiatives, events, programmes and organisations. This provides opportunities within the dairy industry and promotes excellence within the sector (details included on the LIC website under Sponsorship).

LIC's assessment of exposure to non-financial risks, including economic, environmental and health and safety risks, is included in LIC's risk assessment process described under Principle 6.

### Disclosure to the market

LIC has a written disclosure policy: the Continuous Disclosure Policy, found on our website. It sets out requirements for full and timely disclosure to the market of material issues, so that all stakeholders have equal access to information. The Board's Disclosure Committee reviews and approves material announcements. The Board also specifically consider with Management at each board meeting whether there are any issues which might require disclosure to the market under the NZX continuous disclosure requirements.

### Information for investors

LIC's website includes the Company's presentations, reports, announcements and media releases, as well as the Charters and guidelines referred to in this report. The Annual Report is available in electronic and hard copy formats. LIC's Annual Meeting will be held on 2 October 2019 in New Plymouth. We welcome Shareholders' attendance and questions. The external auditors, KPMG, will be at the meeting and will be available to answer questions about the audit and audit report. A Notice of Meeting will be sent to Shareholders in August 2019.



## Corporate Governance Report under NZX

**NZX Code Principle 5, Remuneration: The remuneration of directors and executives should be transparent, fair and reasonable.**

### DIRECTORS AND REMUNERATION

The total remuneration pool for LIC's Directors is set at the Annual General Meeting and a pool of \$647,100 was approved at the meeting held in October 2018.

Directors of the Company received the following remuneration for the twelve months ending 31 May 2019:

*In thousands of New Zealand dollars*

	<b>Fees</b>
M King	120
G Baldwin	51
B Dickie	51
A Foote	27
T Gibson	65
S Haslem	27
M Jagger	51
D Jensen	51
C Kinser	63
M Ross	51
A Watters	51
	<hr/>
	<b>608</b>

Directors of subsidiaries of the Company received the following remuneration for the twelve months ending 31 May 2019:

*In thousands of New Zealand dollars*

	<b>Fees</b>
E Ruiz	13
	<hr/>
	<b>13</b>

Except as set out above, no other Directors of subsidiaries received any remuneration or other benefits in their role as a Director of that subsidiary. The remuneration of employees that receive more than \$100,000 as a result of employee remuneration (and other benefits) is included in the Employees' Remuneration table on page 25. Under LIC's constitution, we have a Honoraria Committee, comprised of four elected Shareholders, that is responsible for considering and recommending to Shareholders, the form and amount of Director remuneration. LIC also has a Remuneration Policy for all employees, which is available to employees under LIC's intranet.

### Chief Executive Remuneration

The Chief Executive's salary is made up of a combination of base salary and performance payments. His performance is assessed based on a range of factors including Health and Safety, the company's financial performance, organisational health, and delivery of key projects.

## Corporate Governance Report under NZX

### Employees' Remuneration

LIC aims to have a remuneration framework and policies to attract and retain talented and motivated people. The Company wants to:

- Be recognised as a great place to work
- Recognise and reward successes, while encouraging teamwork and a high performance culture
- Be fair and consistent
- Be true to our values of integrity, innovation, spirit of co-operation, in tune and passion

We use market data to determine fair remuneration levels for all staff. Short term incentives apply to executive and certain Management roles for achievement of specific objectives and in relation to achievement of project initiatives. During the period 1 June 2018 to 31 May 2019 the following numbers of employees (not being Directors) received total remuneration, including benefits, of at least \$100,000:

Remuneration Range (Gross)	Current Employee	Exited Employees	Total
100,000 – 109,999	40	2	42
110,000 – 119,999	34	3	37
120,000 – 129,999	28	1	29
130,000 – 139,999	13	2	15
140,000 – 149,999	7	-	7
150,000 – 159,999	4	-	4
160,000 – 169,999	5	-	5
170,000 – 179,999	10	2	12
180,000 – 189,999	10	-	10
190,000 – 199,999	3	1	4
200,000 – 209,999	4	1	5
210,000 – 219,999	4	-	4
220,000 – 229,999	2	-	2
230,000 – 239,999	1	1	2
260,000 – 269,999	1	-	1
280,000 – 289,999	2	-	2
300,000 – 309,999	1	-	1
340,000 – 349,999	1	-	1
360,000 – 369,999	1	-	1
510,000 – 519,999	1	-	1
850,000 – 859,999	1	-	1
	<b>173</b>	<b>13</b>	<b>186</b>

## Corporate Governance Report under NZX

**NZX Code Principle 6, Risk Management: Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.**

LIC has a risk management framework in place to identify, oversee, manage and control risk. That framework includes a Risk Management Policy (available on the LIC website) and associated processes. The risk management framework is reviewed every two years and was last reviewed in February 2018. The top 20 risks as identified by the Board are reported to the Audit, Finance & Risk Committee and reviewed on a regular basis, in addition to emerging risks. LIC believes compliance with this framework constitutes a robust risk assessment process.

The risk detail below reflects key risk areas identified and currently focussed on by the Board.

### **Financial risk**

The Company's revenue may be reduced as farmers decrease expenditure as a consequence of reduced returns, availability of cash or an increased cost of production. Volatility of New Zealand's milk price will affect returns paid to farmers: as a net exporter of milk, New Zealand's milk price is, heavily influenced by reference to the price set by the Global Dairy Trade (GDT). Rural lenders approach to their lending portfolio may result in a tightening in policy and in turn less cash on farm. As a result, farmers may look to reduce both their capital spend as well as farm working expenses, including herd improvement. Increased compliance costs on farm may result in an increase in production costs, with farmers seeking to reduce costs elsewhere.

The Board and Management continue to explore diversified growth opportunities, both in New Zealand and internationally, and ways to improve efficiency within LIC and for dairy farmers through innovative products and solutions. There is also a continued focus on genomic evaluation, appropriate selection principles and careful monitoring of the elite portion of the national herd to ensure LIC's breeding scheme continues to deliver superior dairy genetics to assist farmers in improving productivity.

### **Health and safety risk**

Due to the diverse nature of our business, LIC has a wide variety of health and safety risks including: working with hazardous substances, large animals and machinery and regular presence on customer farms. The Audit, Finance & Risk Committee is responsible for reviewing, monitoring and making recommendations to the Board on LIC's health and safety risk management generally. The committee ensures that the systems used to identify and manage health and safety risks are fit for purpose, are being effectively implemented, regularly reviewed and improved.

This year the Board have increased their visibility and focus on health and safety with their commitment to health walkarounds. Significant reduction in traffic infringements from previous years shows a shift in culture. A nationwide initiative also assessed customer herringbone dairy sheds to ensure any inadequate facilities were rectified before artificial insemination service, and this will be continued with rotary sheds assessments in 2020. A reduction in Artificial Breeding Technician injuries during the latest season demonstrated the effectiveness of the initiative. Business units have health and safety representatives and there is a regular formal governance forum chaired by LIC's CE. Monthly report cards are published to keep all staff informed and to re-iterate Company health and safety targets. Actions are in place for improvements identified.

LIC uses a Total Reportable Incident Rate (TRIR) to measure health and safety performance against lag indicators: notifiable events, lost time injuries, medical treatment claims and traffic infringements. The rate is based on the number of incidents per 100 full time equivalent employee. The TRIR for 2019 was 6.6, a slight increase on 5.6 for 2018. However, in 2019 there were no events notifiable to WorkSafe, compared to four notifiable events in 2018.

The focus for 2020 will also include continuing to improve protection for lone workers and further improvements to management of hazardous substances.

## Corporate Governance Report under NZX

### Operational risk

The Company's ability to provide sufficient quality semen during a season relies on a number of factors including the maintenance and operation of key equipment, staff training and adherence to approved procedures and processes. An inability to meet demand for the Company's semen would result in significant reputational damage as well as a reduction in New Zealand revenue. Annually a pre-season risk review is conducted and any necessary remedial actions are initiated prior to the season start. Standard operating procedures are well documented and regularly reviewed. Semen quality is monitored daily and non-return rates are monitored weekly during the peak of the season. Contingency stock of frozen semen is maintained at a separate location.

### Technology risk

Increased reliance both by farmers and the Company on technology, IT systems and services increases vulnerability to system outages and data loss as a result of cyber intrusions or system failures. Security strategy, measures, reviews and audits are performed both within the Company and within its technology service providers. Business continuity and disaster recovery plans and procedures are documented and regularly tested.

### Environmental risk

To some extent, environmental risks are covered in one or more of LIC's key risk areas. However, we recognise that this is a growing area of risk, both for the Company, our customers and suppliers. In particular, changes to improve the Company and industry's impact on climate change may impact on operational efficiency and costs.

LIC has signed the Climate Leaders Coalition. In joining the Coalition, we are committed to measuring and publicly reporting our greenhouse gas emissions, setting a public emissions reduction target, and working with suppliers to reduce their emissions. As well as improvements to our business practices, playing our part to reduce emissions also includes the wider benefits we can bring to the industry by continuing to offer farmers the tools and genetics they need to breed more efficient cows and drive sustainability improvements on-farm. Our Resilient Dairy programme is a great example of this. In addition to this, the Board has agreed that LIC will sign up to the Sustainable Business Council. This also involves making a commitment to reducing our greenhouse gas emissions and building sustainability into our purchasing decisions.

### Bio-security / animal health risk

An exotic disease outbreak in New Zealand could severely limit the Company's ability to provide biological products, including semen, to dairy farmers in New Zealand and overseas, and to continue testing of milk and other biological samples. Health issues within the Company's bull team could equally reduce its ability to provide quality products and services to dairy farmers. Quarantine procedures are in place in all LIC-controlled locations. Animals are maintained at separate locations, effective segregation of bulls occurs within a single location and bulls are regularly inspected. Business continuity plans are in place with regular reviews and scenario testing and LIC has veterinary expertise within the Company.

LIC has invested more than \$0.8m to manage the risk of the transmission of M. Bovis. Quarantine controls have been heightened on LIC's bull farm, and the purchase of an additional quarantine block further reduces the risk to LIC's production bulls held on LIC's main Newstead centre. Antibiotics were added to semen and daily testing was performed to provide customers with complete confidence that every batch of semen dispatched was free of M. Bovis. LIC has also worked closely with the Ministry for Primary Industries to plan for a possible M. Bovis event.

### Disruptive technologies risk

Inability to commercialise new innovations and/or respond quickly to disruptive technologies causing reduced use by Shareholders of existing products and services with resultant reduction in revenue. LIC has adopted world-leading software and product development methodologies to enable quicker commercialisation of new and improved products and services and the Board prioritises capital spend to ensure developments align with farmer needs.

## Corporate Governance Report under NZX

### **NZX Code Principle 7, Auditors: The Board should ensure the quality and independence of the external audit process.**

LIC has an External Auditor Independence policy that requires the external auditor to be independent and to be seen as independent. The Board is satisfied that there is no relationship between the auditor and LIC or any related person at this time, that could compromise the auditor's independence. The Board also obtains confirmation of independence formally from the auditor.

To ensure full and frank discussion between the Audit, Finance & Risk Committee and the auditors, the auditor's senior representatives meet separately with the Committee.

The External Auditor Independence policy sets out restrictions on non-audit work that can be performed by the auditor and the Audit, Finance & Risk Committee is required to approve all engagements with the auditor. The policy requires rotation of the key audit partner every five years: we are fully compliant. LIC asks its external auditor to attend its annual shareholder meeting to answer questions from shareholders in relation to the audit.

LIC does not have a separate internal audit function. The Risk & Assurance Manager performs, reviews and arranges for external audit resource to perform internal audits as agreed with the Audit, Finance & Risk Committee. The Risk & Assurance Manager reports to each Audit, Finance & Risk Committee meeting on audit or review issues and incidents, improvements and changes to internal controls.

### **NZX Code Principle 8, Shareholder rights and relations: The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.**

The LIC Board recognises that its shareholders are the Company's owners, customers and key stakeholders and is responsible for overseeing shareholder engagement. Shareholder engagement reflects LIC's co-operative ownership structure and values and aims to be efficient, effective, fit for purpose and meet shareholder expectations with regard to increased transparency about LIC's activities.

The LIC website is the key place for LIC's financial and operational information, and for its important corporate governance documents. It is updated immediately when any announcement is made to the NZX.

LIC provides half-year and annual reporting to the NZX to keep Shareholders informed, and discloses information to the NZX to meet its continuous disclosure obligations as required. We communicate with Shareholders through our annual report, half-year financial statements and at Shareholder meetings, as well as through a range of media channels on topics which we believe will interest Shareholders. We encourage all Shareholders to receive communications electronically, and provide hard copies of information as and when required.

Shareholders have the right to vote on major decisions which may change the nature of the Company.

## Corporate Governance Report under NZX

### STATUTORY REQUIREMENTS

#### ENTRIES IN THE INTERESTS REGISTER

All Elected Directors of the Company are customers and Shareholders of Livestock Improvement Corporation Limited and purchase products and services for their farming operations on an ongoing basis.

#### Directorships and Memberships

##### Gray Baldwin:

Director of Farmlands Co-operative Society Ltd, Trinity Lands Ltd and Longview Trust Board.

##### Ben Dickie:

Director of Taranaki Veterinary Centre Ltd. Councillor, Fonterra Shareholders' Council and Chair of the Fonterra Shareholder Council Performance Committee.

##### Tim Gibson:

Director of Miraka Ltd, Miraka Holdings Limited, Port Otago Ltd and subsidiaries, Skills International Ltd, Tuhana Consulting Ltd and The Equanut Company Ltd.

##### Sophie Haslem:

Director of Centreport Ltd and subsidiaries, Kordia Group Ltd, Magritek Holdings Ltd and subsidiaries, Meteorological Service of New Zealand Ltd, New Zealand Experience Limited and subsidiaries, Oyster Property Group Ltd and subsidiaries and Rangitira Ltd and subsidiaries. Chair of The Akina Foundation.

##### Murray Jagger:

Director of Marsden Maritime Holdings Ltd, Northport Ltd and North Tugz Limited.

##### David Jensen:

Director of Eastpack Ltd, El Dorado Orchard General Partnership Ltd, Expressway Orchards General Partnership Ltd, Napoli Orchard General Partnership Ltd and a Shareholder of Figured Limited.

##### Murray King:

Director of Appleby Limited, Callura Dairies Management Limited, Dry Steam Irrigation Company Limited, Long Plantation Investments Limited and Waimea Irrigators Limited. Director and Shareholder of New Zealand Dairy Dessert Company Limited and Waimea Community Dam Limited .

##### Candace Kinser:

Director of EROAD, EROAD LTI Trustee Limited, Regional Facilities Auckland Limited, Talent International, Ultrafast Fibre Limited, Waikato Networks Limited and WEL Networks Limited. Investment Committee Member of Return on Science Investment Scheme at the University of Auckland. Director and Shareholder of New Zealand Escargot Limited.

##### Matt Ross:

Director and Shareholder of Bortons Agri Ltd. Director of North Otago Irrigation Company Ltd and Waitaki Irrigators Collective Limited.

##### Dr Alison Watters:

Director of AsureQuality Limited. Shareholder (27.66%) of AgInvest Holdings Limited (AgInvest owns MyFarm Limited).

#### The Directors of the Company's subsidiaries are set out below:

LIC Agritechnology Company Limited: Murray King, Gray Baldwin, Ben Dickie, Tim Gibson, Sophie Haslem, Murray Jagger, David Jensen, Candace Kinser, Matt Ross and Alison Watters.

Livestock Improvement (NZ) Corporation Limited: David Hazlehurst, Murray King and Wayne McNee

LIC Deer Limited: Geoffrey Corbett and Wayne McNee

LIC Automation Limited: David Hazlehurst and Wayne McNee

LIC Johnes Company Limited: Wayne McNee and Richard Spelman

LIC Ventures No.3 Limited: Paul Littlefair and Wayne McNee

Livestock Improvement Pty Limited: Geoffrey Corbett and Michael Rose

Farmkeeper Pty Limited: Geoffrey Corbett and Michael Rose

Overland Corner Holdings Pty Limited: Geoffrey Corbett and Michael Rose

Beacon Automation Pty Limited: Geoffrey Corbett, David Hazlehurst and Jock Roberts

Livestock Improvement Corporation (UK) Limited: David Hazlehurst, Wayne McNee and Mark Ryder

LIC USA Limited: Wayne McNee

LIC Automation USA Limited: Geoffrey Corbett and Wayne McNee

LIC Ireland Limited: Wayne McNee and Mark Ryder

Livestock Improvement Automation Limited: Wayne McNee and Mark Ryder

LIC Automation UK Limited: Geoffrey Corbett and Wayne McNee

NZ Brasil Producao Animal Ltda: Simon O'Connor

## Corporate Governance Report under NZX

### ENTRIES IN THE INTEREST REGISTER

Participation in the Company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2019/2020 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
Murray Jagger	3	\$ 33,000
Matt Ross	9	\$ 99,000

#### (a) Share Dealings by Directors

As at 31 May 2019 the Directors other than the Appointed Directors (either in their own names and/or in the name(s) of their dairy farming entities) as qualifying users of LIC's products and services are holders of the following shares:

Director	31 May 2019	31 May 2018	
	Ordinary Shares	Co-operative Control Shares	Investment Shares
Gray Baldwin	14,276	4,356	-
Ben Dickie	9,984	-	-
Murray Jagger	94,516	1,414	21,967
David Jensen	18,420	1,442	2,710
Murray King	116,704	3,465	24,353
Matt Ross	93,076	4,265	17,769
Dr Alison Watters	42,732	811	7,428

On 19 July 2018, LIC simplified its share structure by amalgamating its two classes of shares (Co-operative Control and Investment Shares) to create a single class of shares (Ordinary Shares). Ordinary Shares include fully paid shares which are quoted on the NZX and Nil Paid Shares which must be paid up over time by Shareholders.

#### (b) Loans to Directors of the Parent and Subsidiaries

There have been no loans during the year.

#### (c) Directors Indemnity and Insurance

The Parent has issued a Deed of Indemnity and insured all its Directors and Senior Managers against liabilities to third parties for any acts or omissions in their capacity as Directors of the Company and its Related Parties.

#### (d) Use of Company Information

There were no notices from Directors of the Company requesting to use Company Information received in their capacity as Directors, which would not otherwise have been available to them.

## Corporate Governance Report under NZX

### RESOLUTION OF DIRECTORS

#### DATED 24 JULY 2019 CONFIRMING THE CO-OPERATIVE STATUS OF LIVESTOCK IMPROVEMENT CORPORATION LIMITED

#### RESOLVED THAT:

Livestock Improvement Corporation Limited (Company) was registered as a Co-operative Company under the provisions of the Co-operative Companies Act 1996 (Act) on 1 March 2002.

In the opinion of the Board of Directors, the Company has been a Co-operative Company from that date to the end of the accounting year ended 31 May 2019.

The grounds for this opinion are:

- 1) The principal activity of the Company involves supplying artificial breeding, herd testing, herd recording and other services to transacting Shareholders (as that term is defined in section 4 of the Act). Accordingly, the principal activity of the Company is, and is stated in the Constitution of the Company as being, a co-operative activity (as the term is defined in section 3 of the Act); and
- 2) Not less than 60 percent of the voting rights attached to shares in the Company are held by transacting Shareholders.

#### Spread of Shareholders as at 31 May 2019

(including treasury stock)

Size of Shareholding	Number of Shareholders*	Shares Held	% of Total
1 - 999	876	502,304	0.34%
1,000 - 1,999	1,172	1,756,786	1.19%
2,000 - 2,999	952	2,350,504	1.59%
3,000 - 3,999	736	2,559,761	1.73%
4,000 - 4,999	626	2,796,033	1.89%
5,000 - 5,999	541	2,967,456	2.01%
6,000 - 6,999	450	2,924,282	1.98%
7,000 - 7,999	354	2,649,744	1.79%
8,000 - 8,999	352	2,991,229	2.03%
9,000 - 9,999	311	2,955,568	2.00%
10,000 - 14,999	1,157	14,210,167	9.62%
15,000 - 19,999	809	14,056,644	9.52%
20,000 - 24,999	405	8,876,184	6.01%
25,000 - 29,999	458	12,256,800	8.30%
30,000 - 34,999	241	7,802,476	5.28%
35,000 - 39,999	193	7,185,080	4.87%
40,000 - 49,999	233	10,384,308	7.03%
50,000 - 99,999	293	19,475,918	13.19%
100,000 - 199,999	60	8,105,137	5.49%
200,000 - 299,999	11	2,707,944	1.83%
300,000 - 499,999	8	2,967,613	2.01%
500,000 - 999,999	3	2,050,230	1.39%
1,000,000 +	5	13,150,252	8.91%
	<b>10,246</b>	<b>147,682,420</b>	<b>100.00%</b>

\* The number of shareholders above is based on the number of separate farms. The table below in relation to the twenty largest shareholdings, amalgamates shareholders with multiple farms.



## Corporate Governance Report under NZX

### Twenty Largest Shareholdings as at 31 May 2019 (including treasury stock)

	Shares Held	% of Total Shares
Trinity Lands Limited	6,305,284	4.27%
Treasury stock held	5,337,584	3.61%
Schmidt Farms Limited	1,560,692	1.06%
Custodial Services Limited	844,598	0.57%
Landcorp Farming Limited	732,176	0.49%
Graham Carr & Christopher John Stark - Deebury Pastoral	718,372	0.49%
Mark Francis Slee & Devon Mathieson Slee	603,772	0.41%
Sim Brothers Limited	601,860	0.41%
Farnley Tyas Limited	451,944	0.31%
Kodie Farms Limited	433,296	0.29%
Malrose Properties Limited	409,376	0.28%
Laird Farm Limited	367,552	0.25%
Bishop Farms Oxford Limited	364,352	0.25%
Brookstead Limited	319,697	0.22%
Crocodile Farms Limited	311,472	0.21%
The Grass Market Company Limited	309,924	0.21%
Magatarata Farms Limited	273,252	0.18%
Robert Laurentius Johannes Bruin & Annemarie Bruin	265,936	0.18%
Broad Acres Farms Limited	262,416	0.18%
South Hilton Limited	254,424	0.17%
		<b>14.04%</b>

### Credit Rating Status

The Co-operative currently does not have a credit rating.

### Substantial Security Holders

As at 31 May 2019, no persons have notified the Company that they are substantial product holders of the Company as referred to in Section 274 of the Financial Markets Conduct Act 2013.

### Donations

The Company made donations totalling \$16,393 during the year ended 31 May 2019 (2018: \$11,792).

### Non-Standard Listing

Livestock Improvement Corporation Limited has been classified as a Non-Standard NZX Issuer by the NZX, pursuant to NZX Listing Rule 1.18, by reason of it being a Co-operative Company having a Constitution which includes provisions having the following effect:

The acquiring of Ordinary Shares is restricted to New Zealand dairy farmers who purchase qualifying products and services from Livestock Improvement Corporation Limited.

## Corporate Governance Report under NZX

### WAIVERS AND APPROVALS GRANTED BY NEW ZEALAND EXCHANGE LIMITED ("NZX") IN THE PROCESS OF THE APPROVAL OF THE CONSTITUTION OF LIVESTOCK IMPROVEMENT CORPORATION LIMITED

As at 31 May 2019, waivers and approvals have been granted in respect of the following NZAX Listing Rules:

- 1 Rule 1.6.1 (previously Rule 1.1.2) in respect of the definition of "Renounceable" to refer to a right or offer that is transferrable to any person who is entitled to hold the Securities to which the right or offer relates. This reflects the ownership restrictions on Shares, as a result of the co-operative nature of LIC.
- 2 Rule 3.2.2 to allow for the following aspects of the Company's corporate governance structure:
  - (a) Directors to be nominated by Ordinary Shareholders, by region, pursuant to clause 22.4(b) and Schedule 3 of the Constitution;
  - (b) Certain qualifications to be required of Directors as set out in Schedule 3 of the Constitution;
  - (c) The nomination procedure for Directors as set out in Schedule 3 of the Constitution.
- 3 Rule 3.2.3 to permit the provisions of Schedule 3 of the Constitution to allow Elected Directors appointed on a casual basis by LIC's Board to stand for re-election on the first day of June next occurring, as set out in schedule 3 of LIC's Constitution.
- 4 Rule 3.2.6 to allow Elected Directors to retire by rotation on the first day of June each year, four years following their appointment, as set out in clause 23 and Schedule 3 of LIC's Constitution.
- 5 Rules 3.2.3 and 3.2.6 to allow Appointed Directors to be appointed, to have their appointment ratified and to retire, as set out in schedule 3 of LIC's Constitution
- 6 Rule 7.1.11 to allow LIC to release to the NZX details of the Nil Paid Shares that have been converted into Fully Paid Shares on a monthly basis, in the form as required under Rule 7.11.1, on the first business day of each month, aggregating the number of Nil Paid Shares that have been paid up (if any) in the preceding month.
- 7 Rule 7.3.11 to allow LIC to issue new shares to a Shareholder in order to ensure they meet the Share Standard. The waiver treats the Share Standard as the "Minimum Holding" requirement for LIC for the purposes of the Listing Rules.
- 8 Rule 7.6.3 to allow clause 3.6.2 of the Constitution to permit financial assistance to be given to an Approved Holding Entity. The Approved Holding Entity acquires Shares in LIC on behalf of Shareholders in administering a voluntary investment scheme and/or dividend reinvestment plan approved by the Board.
- 9 Rule 7.6.9 to allow LIC to buy back shares from an exiting Shareholder as a "routine " buy back.
- 10 Rules 8.1.3 to allow Nil Paid Ordinary Shares to carry full voting rights. Without this waiver, the Nil Paid Shares could only carry voting rights in proportion to which the Share is paid up.
- 11 Rule 8.2.1 is not applicable in the case of LIC, given its status as a Non-Standard NZAX Issuer, and as such LIC is not required to comply with the restrictions of that Rule, so that clause 18 of the Constitution (which provides for a more extensive lien on Securities) is allowed.
- 12 Rule 11.1.5 allows an NZAX Issuer to include restrictions on the issue, acquisition or transfer of Equity Securities in its Constitution, subject to the prior approval of NZX. Restrictions in the Constitution requiring approval from NZX are as follows:
  - (a) Clause 3.2.2 of the Constitution restricts the issue of Voting Securities with the aim of ensuring that LIC remains a Co-operative company controlled by its Shareholders;
  - (b) Clause 3.2.3 of the Constitution restricts the issue and transfer of Securities so that they are only held by Users or Employee Scheme Holders (or by other persons in certain specified circumstances). Again, this aims to protect the fundamental nature of a co-operative company;
  - (c) Clause 3.2.3A of the Constitution prohibits third party interests by prohibiting a Shareholder from holding Shares on behalf of any person who is not a User (subject to exceptions in the case of Family Trusts and the Employee Share Purchase Scheme);
  - (d) Clause 6.3(a) of the Constitution prohibits a person from holding a relevant interest in more than 5% of the total number of Ordinary Shares in LIC on issue;
  - (e) Clause 7.1 of the Constitution may require Users who have spent in excess of the Minimum Purchase Amount to compulsorily dispose of their Ordinary Shares;

## Corporate Governance Report under NZX

- (f) Clause 7.2 of the Constitution may require Users who no longer spend the Minimum Purchase Amount to compulsorily dispose of their Ordinary Shares;
- (g) Clause 20.4 of the Constitution restricts voting rights in LIC so that no person can exercise, or control the exercise of, more than 1% of the maximum number of votes exercisable at any meeting of LIC while the Dairy Industry Restructuring Act 2001 is in force.
- (e) Paragraph 6.1 of Schedule 1 of the Constitution reflects Rule 6.2.5; however it applies to notices of meetings of Shareholders rather than of Quoted Security holders.

As at 1 July 2019, waivers, rulings and approvals have been granted in respect of the following NZX Listing Rules:

- 1 NZXR has granted a Ruling that treats the "Shareholding Requirement" as defined in LIC's Constitution as the "Minimum Holding" requirement for LIC for the purposes of the Listing Rules.
- 2 NZXR has granted LIC a Ruling to the extent that the definition of "Renounceable" refers to a Right or an offer of securities by LIC that is transferrable to any person entitled to hold those securities under the Constitution. This reflects the ownership restrictions on shares, as a result of the co-operative nature of LIC.
- 3 Rules 2.3.1 and 2.3.2, to allow for the following aspects of the Company's corporate governance structure:
  - (a) Directors to be nominated by Ordinary Shareholders, by region, pursuant to clause 22.4(b) and Schedule 3 of the Constitution;
  - (b) Certain qualifications to be required of Directors as set out in Schedule 3 of the Constitution;
- 4 Rule 2.7.1 to allow:
  - (a) Elected Directors appointed on a casual basis by LIC's Board to stand for re-election on the first day of June next occurring, as set out in schedule 3 of LIC's Constitution;
  - (b) Elected Directors to retire by rotation on the first day of June each year, four years following their appointment, as set out in clause 23 and Schedule 3 of LIC's Constitution; and
- 5 5. Rules 2.3.1 and 2.7.1 to allow Appointed Directors to be appointed, to have their appointment ratified and to retire, as set out in schedule 3 of LIC's Constitution.
- 6 Rule 3.13.1 to allow LIC to release to the NZX details of the Nil Paid Shares that have been converted into Fully Paid Shares on a monthly basis, in the form as required under Rule 3.13.1, on the first business day of each month, aggregating the number of Nil Paid Shares that have been paid up (if any) in the preceding month.
- 7 Rule 6.2.4 to allow Nil Paid Ordinary Shares to carry full voting rights. Without this waiver, the Nil Paid Shares could only carry voting rights in proportion to which the Share is paid up.
- 8 Rule 6.6.1 to allow the lien provision in clause 18 in the Constitution to be read in place of this Rule.
- 9 NZXR grants LIC approvals under Listing Rule 8.1.6(b) to include the following restrictions in the Constitution:
  - (a) LIC is restricted in relation to the voting securities that may be issued, as set out in clause 3.2.2 of the Constitution, thereby maintaining its co-operative structure;
  - (b) ordinary shares in LIC may only be held by or transferred to certain persons, as set out in clause 3.2.3 of the Constitution;
  - (c) ordinary shares in LIC shall not be held or acquired for the benefit of any person who is not a User, unless an exception is provided, as set out in clause 3.2.3A of the Constitution;
  - (d) no person shall hold a relevant interest in more than 5% of the total number of ordinary shares in LIC on issue, as set out in clause 6.3(a) of the Constitution;
  - (e) LIC may require Users who have spent in excess of the Minimum Purchase Amount to compulsorily acquire sufficient ordinary shares to meet the Shareholding Requirement, as set out in clause 7.1 of the Constitution;
  - (f) LIC may require Users who no longer spend the Minimum Purchase Amount to compulsorily dispose of their ordinary shares, as set out in clause 7.2 of the Constitution; and
  - (g) while the Dairy Industry Restructuring Act 2001 restricts voting rights in LIC, no person can exercise, or control the exercise of, more than 1% of the maximum number of votes exercisable at any meeting of LIC, as outlined at clause 20.4 of the Constitution.

## Corporate Governance Report under NZX

### DISCLOSURE OF FINANCIAL ASSISTANCE AS REQUIRED UNDER THE COMPANIES ACT 1993

- A. Dividend Reinvestment Plan:** LIC has provided financial assistance to those Shareholders who elect to participate in the Dividend Reinvestment Plan ("Dividend Plan") by agreeing to pay to the Guardian Trust Company of New Zealand Limited ("Guardian Trust") as the Approved Holding Entity the services and administration fees and brokerage and commission costs incurred for the purposes of the Dividend Plan. Craigs Investment Partners Limited ("Craigs") has been appointed as the Broker to purchase the Ordinary Shares on the NZX market for the purposes of the Dividend Plan, and the moneys paid by LIC to Guardian Trust as Approved Holding Entity will include the administration fee, brokerage and commission costs of Craigs.

LIC is required to make disclosures to all Shareholders in respect of this financial assistance. The exact amount of the net costs depends upon the extent to which Shareholders participate in the Dividend Plan. However the total amount of net costs in the next twelve months is estimated to be in the region of \$25,000.

In relation to the financial assistance provided for the Dividend Plan, the LIC Board resolved on 15 May 2019 that LIC should provide the financial assistance referred to above ("Dividend Plan Financial Assistance"), for the period of 12 months commencing 10 working days after sending this disclosure to Shareholders, and that the giving of the Dividend Plan Financial Assistance is in the best interest of LIC and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Dividend Plan Financial Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

- (a) The Dividend Plan Financial Assistance enables LIC to provide Shareholders with an efficient means of acquiring additional Ordinary Shares in LIC without incurring transaction costs which they would otherwise incur;
- (b) The Dividend Plan Financial Assistance is available to all eligible Shareholders, giving equal opportunity to participate in the benefits of the Dividend Plan;
- (c) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new shares are being issued under the Dividend Plan;
- (d) The additional Ordinary Shares will be purchased by Craig Investment Partners Limited ("Craigs") at the NZX market price and participating Shareholders will pay the average NZX market price paid by Craigs on market for those Shares;
- (e) The Dividend Plan will enhance the liquidity in the market for the Ordinary Shares, providing a more liquid market for both participating and non-participating Shareholders wishing to sell those Shares;
- (f) The Dividend Plan enables LIC to offer Shareholders a mechanism to reinvest dividends in Ordinary Shares without resulting in unnecessary new capital being raised through the issue of new shares; and
- (g) The amount of financial assistance is minimal in comparison to the benefits arising out of the Dividend Plan for Shareholders and LIC.

## Corporate Governance Report under NZX

- B. LIC Employee Share Scheme:** LIC proposes to provide financial assistance to those employees who elect to participate in the LIC Employee Share Scheme ("Employee Scheme") which from the 1 April 2011 has been managed by Craig Investment Partners Limited ("Craigs"), with Custodial Services Limited acting as custodian. LIC proposes to pay the Manager's and Custodian's fees and expenses (including brokerage). The amount of the Manager's fee will depend on how many employees participate in the Employee Scheme and the level of their contribution. An estimate of the amount of the financial assistance is \$25,000.

The Board of LIC resolved on 24 July 2019 that LIC should provide the financial assistance referred to above ("Employee Scheme Assistance") for the period of 12 months commencing 10 working days after the date of sending this disclosure to Shareholders, and that the giving of the Employee Scheme Assistance is in the best interests of LIC, and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Employee Scheme Assistance is given are fair and reasonable, to LIC, and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

- (a) The Employee Scheme will be a valuable addition to the benefits available to the employees of LIC and will assist in retaining them as valuable staff;
- (b) The Employee Scheme is a method of aligning the interests of employees with the interests of Shareholders and is an effective means of motivating future performance of the employees. This is expected to bring about an increase in the value of the Ordinary Shares;
- (c) Shareholders will not be diluted or otherwise disadvantaged as no new Ordinary Shares are being issued under the Employee Scheme;
- (d) The additional Ordinary Shares will be purchased through Craigs at the NZAX market price;
- (e) The Employee Scheme will enhance the liquidity in the market for the Ordinary Shares, providing a more liquid market for Shareholders wishing to sell those Shares;

The amount of financial assistance is minimal in comparison to the benefits arising out of the Employee Scheme for Shareholders and LIC.