

Kia ora tautou tau toa

Mr. Chairman, members of the board, Chief Executive, members of staff, shareholders and fellow shareholder councillors, it is my pleasure to present to you the LIC shareholders council report for 2019. It's great to be here in Taranaki.

Changes within the council.

The shareholder council is made up of 21 regionally elected farmer representatives from throughout New Zealand. Our councillors range from 50/50 sharemilkers, owner operators, equity partnership operators through to large multi farm owners. The team of councillors also run differing farm systems from once a day milking through to Dairy NZ system 5 operators.

Over the last year we have had 2 councillors retire. Simon Clisby retired after 4 years in the Canterbury ward. I would like to thank Simon for the work that he has done for the shareholders in the Canterbury ward. Simon has been replaced by Phil Lowe. I would like to welcome Phil to the council.

We also had Fraser McBeth retire after 10 years of service to the LIC shareholder council. Fraser will be missed by council. He was a deep thinker that thought about all aspects of LIC on shareholders behalf. We thank Fraser for all of his efforts over the last 10 years. Unfortunately we still have a vacancy in the Tasman/Marlborough ward and are working hard to fill this position.

Thank you to both Simon and Fraser and welcome Phil.

Strategy

The new strategy that the board and management released in the 2017/18 year changed somewhat, with the major focuses being 60% optimise the core business, 30% enhancing the core and 10% capturing value beyond the core. This change sat well with the shareholders council in that it brought the company back on a majority focus here in New Zealand for our shareholders. As shareholder representatives it is extremely pleasing to see management introducing agri managers and field staff back into areas where these staff were removed during the restructures. This has allowed a greater focus on the core business with more Agri Managers being able to have more contact with shareholders.

Appointed Directors

Clause 21 of the LIC Constitution requires the shareholder council to consider any proposal for appointed directors, and if so approve such an appointment if the shareholder council so decides. The

shareholder council unanimously approved the re appointment of Mr Tim Gibson for a further three year term.

The shareholder council unanimously endorsed the appointment of Mrs Sophie Haslam for a one year term.

Elected Directors

The shareholder council does not have to ratify any farmer elected directors, you the shareholders have the final say on elected directors. The shareholder council would like to acknowledge and thank Murray Jagger for his 19 years on the board of LIC, covering the Northern Region. Murray started his association with LIC as an AB technician in 1984, he then spent time on the farmer liaison council, Northland Regional Board. A total of 28 years of unwavering service to LIC. Murray we the shareholder council would like to thank you for your wisdom, advice and support of LIC, not just in the company but also in the support that you provided to many shareholders over that period of time.

Murray has been replaced on the board by Ken Hames. Welcome Ken.

Financial Performance

The shareholder council was pleased by the financial performance of LIC over the last financial year. We have already acknowledged management of the good performance.

The payment of a strong dividend to shareholders reflected what a good year LIC had. Shareholders that I have spoken to welcomed the dividend at a time of poor cash flows on farm. Shareholders also told me that it was good to see LIC doing well in light of some other co-ops not paying dividends and some being sold.

We were pleased to see that borrowings had decreased from \$19.6 million to \$4.6 million.

Cash on hand at end of year was \$4.5 million, (effectively nil borrowings)

New Zealand Markets continues to improve year after year. As a council we often hear from shareholders that rather than a dividend being paid out they would prefer cheaper products and services. Board and management have always told council that without strong sales of our great products and services at these prices LIC would not be able to invest the amount of money in Research and Development (R & D) that it does.

Of concerning note, the shareholder council has noted a declining amount of money being spent on R & D over the last 3 years.

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

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

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

18/19 \$13.6 million, 5.5% of revenue

Whilst the shareholders council acknowledge that this spend on R and D exceeds the normal spend by companies it does appear to be on a declining slope.

It has been reported that over the last 12 months the company did receive funding from two government departments to help with R & D projects.

The shareholders council have expressed concern in previous years about the need to invest in ventures outside of New Zealand. From last year's accounts the shareholders council is pleased that the revenue streams have increased over the last year from Australia, England and Ireland.

The shareholders council has expressed concern to the board at the ongoing performance of LIC Automation business unit. The service and reliability aspect of one of LIC's key parts of hardware being Protrack. This is a major focus of concern for council as LIC is a genetics and technology company, when the technology component is not working properly, shareholders become very frustrated.

Bio Security

LIC must be congratulated on leading the way in providing assurance to shareholders in wake of the Mycoplasma bovis eradication plan. Every batch of semen being tested before it is dispatched onto farm. Additional herd testing equipment being purchased to provide security to shareholders that all equipment is returned to the depots and sanitised before it is returned to farm.

The purchase of an additional 64 hectare farm to increase its bio security and quarantine facilities. The complete upgrade of the Awhuri facility just outside of Palmerston North. All of these decisions have been welcomed by the shareholders council and show us how committed LIC is in protecting our elite bulls and today's ever changing environment.

To conclude, the shareholders council would like to congratulate the management team and staff on achieving the results they did over the last year. We have said to the board that yes this is a good result for LIC but let's make sure that it is not just a one off. All shareholders were told during the PACE transformation that there were going to be one off benefits and ongoing benefits year on year.

The shareholders council want to thank all members of the senior leadership team and staff that have presented to us over the past year and freely answered our questions.

The shareholders council and Board have continued to work closer for the betterment of LIC.

Today's farming landscape is constantly changing and evolving and challenging for farmers. LIC is no different and is always looking at different ways in which to make things easier for its shareholders, for example SPACE and the mobile apps. As shareholders it is our job to pick up these new initiatives, products and services and utilise them. This will enable us to make quicker, more informed decisions.

Well done on a good year.