



Livestock Improvement Corporation Limited (LIC)

ANNUAL REPORT

Year Ended 31 May 2016



Income Statement
For the year ended 31 May 2016

| <i>In thousands of New Zealand dollars</i> | Note | Consolidated | |
|--|------|---------------------|----------------|
| | | 2016 | 2015 |
| Revenue | 3 | 205,058 | 228,385 |
| Other income | | 5,673 | 4,111 |
| Purchased materials | | (37,451) | (39,843) |
| Staff expenses | 5 | (92,994) | (93,573) |
| Depreciation | 9 | (11,034) | (9,876) |
| Amortisation | 10 | (13,558) | (11,209) |
| Other expenses | 4 | (53,610) | (59,881) |
| Earnings before finance activities, taxation and fair value adjustments - elite biological assets | | 2,085 | 18,114 |
| Finance income | 6 | 896 | 506 |
| Finance expenses | 6 | (1,827) | (1,157) |
| Fair value adjustments - elite biological assets | 11 | (5,144) | 3,763 |
| Profit/(loss) before taxation | | (3,991) | 21,226 |
| Tax on fair value adjustments - elite biological assets | 7 | 1,440 | (1,054) |
| Tax - other | 7 | (1,464) | (6,503) |
| Total tax expense | | (24) | (7,557) |
| Profit/(loss) for the year | | (4,015) | 13,669 |
| Profit/(loss) attributable to: | | | |
| Owners of the Company | | (3,953) | 13,837 |
| Non-controlling interests | | (61) | (168) |
| | | (4,015) | 13,669 |
| Earnings per share | 18 | | |
| Basic and diluted earnings per investment share (NZ dollars) | | (0.136) | 0.463 |

Supplementary note to the Income Statement

| | | |
|---|----------------|---------------|
| Profit/(loss) for the year | (4,015) | 13,669 |
| (Profit)/loss on fair value adjustments - elite biological assets | 5,144 | (3,763) |
| Tax effect on (profit)/loss on fair value adjustments - elite biological assets | (1,440) | 1,054 |
| Underlying net earnings /(loss) excluding fair value adjustments - elite biological assets and tax thereon | (312) | 10,960 |

**Statement of Comprehensive Income
For the year ended 31 May 2016**

| <i>In thousands of New Zealand dollars</i> | Consolidated 2016 | 2015 |
|---|------------------------------|---------------|
| Profit/(loss) for the year | (4,015) | 13,669 |
| Other comprehensive income (net of income tax) | | |
| <i>Items that may be reclassified to the Income Statement in future periods:</i> | | |
| Effective portion of changes in fair value of cash flow hedges | (201) | 162 |
| Net change in fair value of available for sale financial assets | 655 | (132) |
| <i>Items that will not be reclassified to the Income Statement in future periods:</i> | | |
| Revaluation of property plant and equipment | 1,709 | 2,088 |
| Other comprehensive income/(loss) for the year, net of tax | 2,163 | 2,118 |
| Total comprehensive income/(loss) for the year | (1,852) | 15,788 |
| Total comprehensive income/(loss) attributable to: | | |
| Owners of the Company | (1,791) | 15,956 |
| Non-controlling interests | (61) | (168) |
| Total comprehensive income/(loss) for the year | (1,852) | 15,788 |

Balance Sheet
As at 31 May 2016

In thousands of New Zealand dollars

| | Note | Consolidated | |
|--|------|----------------|----------------|
| | | 2016 | 2015 |
| Assets | | | |
| Fixed assets | 9 | 92,307 | 88,212 |
| Intangible assets | 10 | 79,655 | 65,354 |
| Biological assets | 11 | 87,511 | 92,655 |
| Investments & derivatives | 12 | 3,346 | 2,618 |
| Total non-current assets | | 262,819 | 248,839 |
| Cash and cash equivalents | 15 | 2,667 | 2,523 |
| Inventories | 13 | 14,617 | 13,162 |
| Biological assets | 11 | 2,393 | 2,414 |
| Investments & derivatives | 12 | - | 198 |
| Trade receivables | 14 | 38,028 | 32,209 |
| Prepayments | | 3,132 | 2,164 |
| Total current assets | | 60,836 | 52,670 |
| Total assets | | 323,655 | 301,509 |
| Equity | | | |
| Share capital | | 58,464 | 58,464 |
| Reserves | | 31,782 | 29,620 |
| Retained earnings | | 120,703 | 130,640 |
| Equity attributable to owners of the company | 16 | 210,949 | 218,723 |
| Non-controlling interests | | 8 | 69 |
| Total equity | | 210,957 | 218,792 |
| Liabilities | | | |
| Provisions | 19 | 5,829 | 5,765 |
| Term loans | | 10,000 | - |
| Deferred tax liability | 8 | 31,187 | 32,170 |
| Total non-current liabilities | | 47,016 | 37,936 |
| Co-operative Control Shares | 17 | 6,797 | 6,474 |
| Derivatives | 12 | 16 | - |
| Trade & other payables | 20 | 22,796 | 23,382 |
| Bank loans and borrowings | | 32,771 | 10,354 |
| Provision for tax | | 477 | 2,110 |
| Provisions | 19 | 2,825 | 2,462 |
| Total current liabilities | | 65,683 | 44,782 |
| Total liabilities | | 112,698 | 82,717 |
| Total equity and liabilities | | 323,655 | 301,509 |

Director

Date: 20 July 2016

Director

Date: 20 July 2016

Statement of Cash Flows
For the year ended 31 May 2016

| <i>In thousands of New Zealand dollars</i> | Note | Consolidated | |
|---|------|---------------------|------------------|
| | | 2016 | 2015 |
| Net cash from/(used in) operating activities | | | |
| Cash provided from: | | | |
| Receipts from customers | | 201,396 | 231,721 |
| Sale of biological assets | | 787 | 1,012 |
| Finance income received | | 295 | 731 |
| | | 202,478 | 233,465 |
| Cash applied to: | | | |
| Payments to suppliers and employees | | (184,008) | (192,103) |
| Finance expense paid | | (1,024) | (600) |
| Income tax paid | | (3,010) | (5,996) |
| | | (188,042) | (198,700) |
| | 26 | 14,436 | 34,765 |
| Net cash from/(used in) investing activities | | | |
| Cash provided from: | | | |
| Acquisition of subsidiary - net of cash acquired | | - | 14 |
| Sale of shares | | 54 | 297 |
| Sale of fixed assets | | 644 | 471 |
| | | 698 | 782 |
| Cash applied to: | | | |
| Acquisition of subsidiary - net of cash acquired | | (6,493) | - |
| Acquisition of shares | | (208) | (2,052) |
| Acquisition of intangibles | | (21,511) | (26,596) |
| Acquisition of fixed assets | | (12,707) | (19,138) |
| | | (40,919) | (47,787) |
| | | (40,221) | (47,005) |
| Net cash from/(used in) financing activities | | | |
| Cash provided from: | | | |
| Co-operative Control Shares paid up | | 1,227 | 1,089 |
| Bank loans and borrowings | | 32,417 | 10,350 |
| | | 33,644 | 11,439 |
| Cash applied to: | | | |
| Repurchase of Co-operative Control Shares | | (904) | (907) |
| Dividends paid to Shareholders of the Group | | (5,983) | (10,601) |
| Interest paid on Co-operative Control Shares | | (628) | (565) |
| | | (7,515) | (12,074) |
| | | 26,129 | (635) |
| Net increase/(decrease) in cash balances | | | |
| Cash balances at beginning of year | | 2,523 | 15,502 |
| Effect of exchange rate changes on cash held | | (201) | (104) |
| Closing cash balances | 15 | 2,667 | 2,523 |

**Statement of Changes in Equity
For the year ended 31 May 2016**

In thousands of New Zealand dollars

| | LIC Investment Shares | Foreign Currency Hedge Reserve | Available for Sale Asset Reserve | Revaluation Reserve | Retained Earnings | Non Controlling Interests (NCI) | Total Equity |
|---|--------------------------|-----------------------------------|-------------------------------------|------------------------|-------------------|------------------------------------|-----------------|
| Balance at 1 June 2014 | 58,464 | (3) | 275 | 27,361 | 127,272 | - | 213,369 |
| Total comprehensive income for the year | | | | | | | |
| Profit for the year | - | - | - | - | 13,837 | (168) | 13,669 |
| Other comprehensive income | | | | | | | |
| Effective portion of changes in fair value of cash flow hedges | - | 162 | - | - | - | - | 162 |
| Net change in fair value of available for sale financial assets | - | - | (132) | - | - | - | (132) |
| Transfer to retained earnings for land & buildings sold during year | - | - | - | (132) | 132 | - | - |
| Revaluation of property plant and equipment | - | - | - | 2,088 | - | - | 2,088 |
| Total other comprehensive income | - | 162 | (132) | 1,956 | 132 | - | 2,118 |
| Total comprehensive income for the year | - | 162 | (132) | 1,956 | 13,969 | (168) | 15,788 |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Contributions by and distributions to owners | | | | | | | |
| Dividends to equity holders | - | - | - | - | (10,601) | - | (10,601) |
| Total contributions by and distributions to owners | - | - | - | - | (10,601) | - | (10,601) |
| Changes in ownership interests | | | | | | | |
| Acquisition of subsidiary with NCI | - | - | - | - | - | 237 | 237 |
| Total changes in ownership interests | - | - | - | - | - | 237 | 237 |
| Balance at 31 May 2015 | 58,464 | 160 | 143 | 29,316 | 130,640 | 69 | 218,792 |
| Balance at 1 June 2015 | 58,464 | 160 | 143 | 29,316 | 130,640 | 69 | 218,792 |
| Total comprehensive income for the year | | | | | | | |
| Profit/(loss) for the year | - | - | - | - | (3,953) | (61) | (4,015) |
| Other comprehensive income | | | | | | | |
| Effective portion of changes in fair value of cash flow hedges | - | (201) | - | - | - | - | (201) |
| Net change in fair value of available for sale financial assets | - | - | 655 | - | - | - | 655 |
| Revaluation of property plant and equipment | - | - | - | 1,709 | - | - | 1,709 |
| Total other comprehensive income | - | (201) | 655 | 1,709 | - | - | 2,163 |
| Total comprehensive income/(loss) for the year | - | (201) | 655 | 1,709 | (3,953) | (61) | (1,852) |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Contributions by and distributions to owners | | | | | | | |
| Dividends to equity holders | - | - | - | - | (5,983) | - | (5,983) |
| Total contributions by and distributions to owners | - | - | - | - | (5,983) | - | (5,983) |
| Balance at 31 May 2016 | 58,464 | (41) | 798 | 31,025 | 120,704 | 8 | 210,957 |

Notes to the Financial Statements
For the year ended 31 May 2016

1 Accounting entity

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

These financial statements of LIC, as at and for the year ended 31 May 2016, comprise LIC and its subsidiaries (together referred to as the 'Group').

The Group is primarily involved in providing genetics, herd testing, farm software and farm automation to its customers.

2 Basis of preparation

(a) *Statement of compliance*

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for Tier 1 profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ('IFRS').

(b) *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for the following:

- Land and Buildings are measured at fair value;
- Biological assets are measured at fair value less costs to sell;
- Available-for-sale financial assets are measured at fair value; and
- Derivative financial instruments are measured at fair value.

(c) *Functional and presentation currency*

These financial statements are presented in New Zealand dollars (\$), which is the Group's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

(d) *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements, in applying accounting policies that have the most significant effect on the amount recognised in the Financial Statements are described in the following notes:

- Note 9 – Fixed assets – revaluation of land and buildings
- Note 10 – Intangible assets - measurement of the recoverable amounts of intangibles
- Note 11 – Biological assets
- Note 19 – Provisions
- Note 29 – Business combinations

It is reasonably possible, based on existing knowledge, that outcomes within the next financial year, that are different from the assumptions made, could require a material adjustment to the carrying amount of the asset or liability affected.

(e) *Goods and Services Tax (GST)*

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.

Amendments to NZ IFRS standards and interpretations issued

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted, and which are relevant to the Group include:

- NZ IFRS 9 (2009) Financial Instruments (effective January 2018)
- NZ IFRS 15 Revenue (effective January 2017)
- NZ IFRS 16 Leases (effective January 2019)

The impact of these amendments on the Group's financial statements have not yet been determined.

In preparing these financial statements the Group has early adopted the Disclosure Initiative - Amendments to NZ IAS 1.

Notes to the Financial Statements

3. Operating Segments

Information about reportable segments

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

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

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

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

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

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

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

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

Government grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Notes to the financial statements

3. Operating Segments (continued)

| <i>In thousands of New Zealand dollars</i> | NZ Market Genetics | | Herd Testing | | Farm Software | | Farm Automation | | Total Reportable Segments | | Other | | Eliminations | | Total | | | |
|---|--------------------|---------|--------------|---------|---------------|---------|-----------------|--------|---------------------------|---------|----------|----------|--------------|---------|---|----------|----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | | |
| External revenues | 82,631 | 90,815 | 22,121 | 28,384 | 40,166 | 39,185 | 17,061 | 20,232 | 161,979 | 178,617 | 48,752 | 53,878 | - | - | 210,731 | 232,495 | | |
| Inter-segment revenue | - | - | - | - | - | - | 92 | 364 | 92 | 364 | 3,292 | 3,332 | 3,384 | (3,697) | - | - | | |
| Total revenue | 82,631 | 90,815 | 22,121 | 28,384 | 40,166 | 39,185 | 17,153 | 20,596 | 162,071 | 178,981 | 52,044 | 57,211 | 3,384 | (3,697) | 210,731 | 232,495 | | |
| Depreciation & amortisation | (1,357) | (1,308) | (3,311) | (3,035) | (2,669) | (2,530) | (1,769) | (909) | (9,107) | (7,781) | (15,485) | (13,304) | - | - | (24,591) | (21,085) | | |
| Reportable segment profit before income tax | 49,055 | 57,980 | 5,313 | 7,424 | 25,152 | 25,062 | 7,201 | 10,160 | 86,720 | 100,626 | 28,245 | 34,539 | - | - | 114,965 | 135,164 | | |
| | | | | | | | | | | | | | | | Unallocated amounts | | | |
| | | | | | | | | | | | | | | | Permanent and non seasonal Personnel, Operating and Overheads | | (112,831) | (116,226) |
| | | | | | | | | | | | | | | | Other finance income/expenses | | (931) | (651) |
| | | | | | | | | | | | | | | | Impairment | | (50) | (825) |
| | | | | | | | | | | | | | | | Fair value adjustments-elite biological assets | | (5,144) | 3,763 |
| | | | | | | | | | | | | | | | Profit before income tax | | (3,991) | 21,226 |

Geographical segments

The Group operates in four principal geographical areas; New Zealand, Australia, United Kingdom and Ireland.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding other financial assets and tax assets) by geographical location (of customer) are detailed below:

Geographical information

| <i>In thousands of New Zealand dollars</i> | Revenues | Revenues | Non current assets | Non current assets |
|--|----------------|----------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| New Zealand | 198,843 | 219,571 | 254,782 | 247,420 |
| Australia | 3,843 | 3,108 | 7,008 | 394 |
| Ireland | 2,671 | 2,214 | 252 | 280 |
| United Kingdom | 3,360 | 3,840 | 552 | 581 |
| Other Countries | 2,014 | 3,763 | 224 | 164 |
| Total | 210,731 | 232,495 | 262,819 | 248,839 |

Information about major customers

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

Government grants

External revenues attributable to other segments include government grant income of \$5.341 million (2015: \$4.111 million).

Notes to the Financial Statements

4 Other expenses

The following items of expenditure are included in other expenses:

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|--|-------------|-------------|
| Donations | 57 | 4 |
| Research and development | 16,893 | 16,874 |
| Net loss on sale of fixed assets | - | 1,393 |
| Impairment expense | 50 | 825 |
| Auditors' remuneration comprises: | | |
| KPMG – audit services | 138 | 148 |
| KPMG – non audit-related services | 10 | 54 |
| Other auditors | 30 | 32 |

Non audit-related services provided by KPMG were for taxation consultancy services.

Research and development expenses above is the total expenditure incurred across all departments and represents 8.01% of revenue (2015: 7.39%).

5 Staff expenses

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|--|---------------|---------------|
| Wages and salaries | 81,180 | 81,844 |
| Contributions to employee superannuation | 3,089 | 4,028 |
| Other employee expenses | 8,724 | 7,701 |
| | 92,994 | 93,573 |

6 Finance income and expense

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, dividends on Co-operative Control Shares and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method, except where the borrowing costs are associated with qualifying assets, in which case they are capitalised.

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|--|----------------|----------------|
| Interest income on loans and receivables | 214 | 482 |
| Net foreign exchange gain | 601 | - |
| Dividend income on available-for-sale financial assets | 81 | 24 |
| Finance income | 896 | 506 |
| Interest expense | (1,199) | (509) |
| Dividend paid on Co-operative Control Shares | (628) | (565) |
| Net foreign exchange loss | - | (83) |
| Finance expense | (1,827) | (1,157) |
| Net finance expense | (931) | (651) |

Notes to the Financial Statements

7 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the Statement of Comprehensive Income.

Current tax is the expected income tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, land that is recorded at fair value, and income tax losses where it is not probable these losses will be utilised through future taxable profits. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|---|----------------|--------------|
| Current tax expense | | |
| Current period | 1,408 | 5,978 |
| Adjustments for prior periods | - | (111) |
| | <u>1,408</u> | <u>5,867</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (1,404) | 1,348 |
| Adjustments for prior periods | 20 | 342 |
| | <u>(1,384)</u> | <u>1,690</u> |
| Total income tax expense | 24 | 7,557 |

Reconciliation of tax expense

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|---|----------------|---------------|
| Profit/(loss) for the period | (4,015) | 13,669 |
| Total income tax expense | 24 | 7,557 |
| Profit/(loss) before income tax | <u>(3,991)</u> | <u>21,226</u> |
| Income tax using the Company's domestic tax rate: 28% (2015: 28%) | (1,117) | 5,943 |
| Effect of tax rates in foreign jurisdictions | 75 | 103 |
| Non-deductible expenses | 949 | 1,133 |
| Under/(over) provided in prior periods | 117 | 378 |
| Total income tax expense | <u>24</u> | <u>7,557</u> |

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|--|-------------|--------------|
| Revaluation of buildings | 401 | (328) |
| Total income tax recognised directly in other comprehensive income | 401 | (328) |

Imputation credits

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|---|---------------|---------------|
| Imputation credits are available to shareholders of the Company | 14,732 | 16,339 |

Notes to the Financial Statements

8 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| <i>In thousands of New Zealand dollars</i> | Assets | | Liabilities | | Net | |
|--|--------------|--------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Fixed assets | - | - | (5,769) | (4,922) | (5,769) | (4,922) |
| Intangible assets | - | - | (2,940) | (2,940) | (2,940) | (2,940) |
| Biological assets | - | - | (24,243) | (25,742) | (24,243) | (25,742) |
| Inventories | - | - | (47) | (59) | (47) | (59) |
| Provisions | 1,790 | 1,467 | (59) | (60) | 1,731 | 1,407 |
| Other items | 81 | 86 | - | - | 81 | 86 |
| Net tax (assets)/liabilities | 1,871 | 1,553 | (33,058) | (33,723) | (31,187) | (32,170) |

Movement in temporary differences during the year

| <i>In thousands of New Zealand dollars</i> | Balance 31 May 2014 | Recognised in profit or loss | Recognised in equity | Balance 31 May 2015 | Recognised in profit or loss | Recognised in equity | Balance 31 May 2016 |
|--|---------------------|------------------------------|----------------------|---------------------|------------------------------|----------------------|---------------------|
| Fixed assets | (4,457) | (793) | 328 | (4,922) | (446) | (401) | (5,769) |
| Intangible assets | (2,940) | - | - | (2,940) | - | - | (2,940) |
| Biological assets | (24,869) | (873) | - | (25,742) | 1,499 | - | (24,243) |
| Inventories | (50) | (9) | - | (59) | 12 | - | (47) |
| Provisions | 1,330 | 77 | - | 1,407 | 324 | - | 1,731 |
| Other items | 178 | (92) | - | 86 | (5) | - | 81 |
| | (30,808) | (1,690) | 328 | (32,170) | 1,384 | (401) | (31,187) |

Notes to the Financial Statements

9 Fixed assets

Items of property, plant and equipment, except for land and buildings, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset including costs related to financing and bringing the asset to its working location. Land and buildings are revalued to market value by an independent professional valuer at least every 3 years, or when an indicator of substantial movement in values has occurred.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item, if it enhances the future economic benefits embodied within the asset and it is probable they will flow to the Group. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|--------------------------|-------------|
| · Buildings | 30-40 years |
| · Plant and equipment | 5-7 years |
| · Vehicles | 5 years |
| · Furniture and fittings | 5-10 years |
| · Computers | 3-5 years |

| <i>In thousands of New Zealand dollars</i> | Land | Buildings | Plant and equipment | Vehicles | Furniture and fittings | Computers | Total |
|---|---------------|---------------|---------------------|-----------------|------------------------|----------------|-----------------|
| Cost or fair value | | | | | | | |
| Balance at 1 June 2014 | 32,812 | 24,332 | 41,602 | 17,095 | 3,294 | 12,384 | 131,518 |
| Additions | 30 | 11,024 | 5,641 | 2,688 | 529 | 1,036 | 20,948 |
| Additions through business combination | - | 79 | 17 | 43 | 5 | 12 | 156 |
| Increases/(decreases) resulting from revaluations | 3,032 | (3,985) | - | - | - | - | (953) |
| Disposals | - | (1,494) | (585) | (1,770) | (252) | (2,056) | (6,159) |
| Foreign exchange impact | - | - | 6 | 39 | 5 | 7 | 57 |
| Balance at 31 May 2015 | 35,873 | 29,955 | 46,681 | 18,093 | 3,581 | 11,383 | 145,566 |
| Balance at 1 June 2015 | 35,873 | 29,955 | 46,681 | 18,093 | 3,581 | 11,383 | 145,566 |
| Additions | - | 3,305 | 5,347 | 3,558 | 931 | 993 | 14,134 |
| Additions through business combination | - | - | 309 | 46 | - | - | 355 |
| Increases/(decreases) resulting from revaluations | 678 | (322) | - | - | - | - | 355 |
| Disposals | - | (90) | (1,912) | (3,543) | (961) | (2,263) | (8,769) |
| Foreign exchange impact | - | (2) | 6 | 26 | 4 | 2 | 35 |
| Balance at 31 May 2016 | 36,551 | 32,845 | 50,430 | 18,180 | 3,555 | 10,114 | 151,676 |
| Depreciation and impairment losses | | | | | | | |
| Balance at 1 June 2014 | - | (1,553) | (32,075) | (10,100) | (2,252) | (8,507) | (54,488) |
| Depreciation for the year | - | (1,403) | (3,894) | (2,630) | (373) | (1,576) | (9,876) |
| Adjustment due to revaluations | - | 2,510 | - | - | - | - | 2,510 |
| Disposals | - | 149 | 552 | 1,577 | 231 | 2,044 | 4,553 |
| Foreign exchange impact | - | (1) | (5) | (35) | (4) | (8) | (53) |
| Balance at 31 May 2015 | - | (299) | (35,422) | (11,188) | (2,397) | (8,047) | (57,353) |
| Balance at 1 June 2015 | - | (299) | (35,422) | (11,188) | (2,397) | (8,047) | (57,353) |
| Depreciation for the year | - | (1,850) | (4,095) | (2,797) | (557) | (1,734) | (11,034) |
| Adjustment due to revaluations | - | 1,755 | - | - | - | - | 1,755 |
| Disposals | - | 14 | 1,674 | 2,632 | 907 | 2,061 | 7,288 |
| Foreign exchange impact | - | (1) | (1) | (19) | (3) | (2) | (25) |
| Balance at 31 May 2016 | - | (381) | (37,843) | (11,372) | (2,050) | (7,722) | (59,369) |
| Carrying amounts | | | | | | | |
| At 1 June 2014 | 32,812 | 22,779 | 9,526 | 6,994 | 1,043 | 3,877 | 77,030 |
| At 31 May 2015 | 35,873 | 29,656 | 11,259 | 6,905 | 1,184 | 3,336 | 88,212 |
| At 1 June 2015 | 35,873 | 29,656 | 11,259 | 6,905 | 1,184 | 3,336 | 88,212 |
| At 31 May 2016 | 36,551 | 32,464 | 12,587 | 6,808 | 1,505 | 2,392 | 92,307 |

Notes to the Financial Statements

9 Fixed assets (continued)

Under a cost model, each asset would be recorded as

| | |
|-----------|--------|
| Land | 10,697 |
| Buildings | 27,802 |

At the reporting date there was \$0.314 million of work-in-progress (WIP) assets which are currently not being depreciated (2015: \$2.964 million). These are included in the above carrying values of Buildings and Plant and Equipment.

Valuations of land and buildings were performed to determine the carrying value of these assets at 30 April 2016. These were performed by independent registered valuers, Colliers International New Zealand, Fergusson Lockwood & Associates and Jon G. Newson, and are based on market values of transactions for similar properties. Fair values of land have been determined by using a direct comparison methodology and the fair value of buildings have been determined by using a capitalised rental methodology.

10 Intangible assets

Goodwill arises on the acquisition of subsidiaries, and represents the excess of the cost of the investment over the fair value of net identifiable assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve design and production of new or substantially improved products including computer software programs. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins at the time that commercial use commences and the amortisation period is up to five years on a straight line basis.

The Group acquired the Livestock Improvement Database as part of its acquisition of the net assets and operations of the then Livestock Improvement Division of the New Zealand Dairy Board and the six Livestock Improvement Associations, under the Dairy Restructuring Act 2001. The deemed cost of the Livestock Improvement Database was capitalised. Based on the complexity of data, models, statistical compilation and integration, and the ability to derive revenue from several products the Group has determined that the Livestock Improvement Database has an indefinite useful life.

Acquired intellectual property, whether through business combinations or individual asset purchases, is capitalised on the basis of the costs incurred to acquire the intellectual property. These costs are amortised over their estimated useful lives, being up to six years. The amortisation period and amortisation method is reviewed at each reporting date.

The carrying values of all goodwill and indefinite life assets are tested annually for impairment. The amortisation period and method is reviewed at each reporting date for all other intangible assets. For the purposes of impairment testing, intangible assets are allocated to cash generating units representing the operating segments of the Group.

Notes to the Financial Statements

10 Intangible assets (continued)

| <i>In thousands of New Zealand dollars</i> | Intellectual Property | Goodwill | Database | Software | Total |
|--|----------------------------------|-----------------|-----------------|-----------------|-----------------|
| Cost | | | | | |
| Balance at 1 June 2014 | - | 8,196 | 10,500 | 76,223 | 95,819 |
| Acquisitions – internally developed | 415 | - | - | 22,819 | 23,234 |
| Acquisitions – separately acquired | 1,180 | - | - | 2,365 | 3,545 |
| Acquisitions - business combinations | - | - | - | 3 | 3 |
| Disposals | - | - | - | (1,295) | (1,295) |
| Foreign exchange impact | - | - | - | - | - |
| Balance at 31 May 2015 | 2,495 | 8,196 | 10,500 | 100,116 | 121,307 |
| Balance at 1 June 2015 | 2,495 | 8,196 | 10,500 | 100,116 | 121,307 |
| Acquisitions – internally developed | 292 | - | - | 22,065 | 22,356 |
| Acquisitions – separately acquired | 116 | - | - | 1,085 | 1,202 |
| Acquisitions – business combinations | - | 6,082 | - | - | 6,082 |
| Disposals | (344) | - | - | (10,576) | (10,920) |
| Foreign exchange impact | - | - | - | 3 | 3 |
| Balance at 31 May 2016 | 2,560 | 14,278 | 10,500 | 112,693 | 140,030 |
| Amortisation and impairment losses | | | | | |
| Balance at 1 June 2014 | (38) | (3,590) | - | (42,115) | (45,743) |
| Amortisation for the year | (180) | - | - | (11,029) | (11,209) |
| Impairment | - | (109) | - | - | (109) |
| Disposals | - | - | - | 1,109 | 1,109 |
| Foreign exchange impact | - | - | - | - | - |
| Balance at 31 May 2015 | (217) | (3,699) | - | (52,035) | (55,952) |
| Balance at 1 June 2015 | (217) | (3,699) | - | (52,035) | (55,952) |
| Amortisation for the year | (412) | - | - | (13,146) | (13,558) |
| Impairment | - | - | - | - | - |
| Disposals | 531 | - | - | 8,606 | 9,137 |
| Foreign exchange impact | - | - | - | (2) | (2) |
| Balance at 31 May 2016 | (98) | (3,699) | - | (56,578) | (60,376) |
| Carrying amounts | | | | | |
| At 1 June 2014 | 863 | 4,606 | 10,500 | 34,108 | 50,076 |
| At 31 May 2015 | 2,278 | 4,496 | 10,500 | 48,081 | 65,355 |
| At 1 June 2015 | 2,278 | 4,496 | 10,500 | 48,081 | 65,355 |
| At 31 May 2016 | 2,462 | 10,579 | 10,500 | 56,115 | 79,655 |

At the reporting date there was \$28.102 million of capital work in progress within software which is currently not being amortised (2015: \$18.954 million).

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| <i>In thousands of New Zealand dollars</i> | Consolidated | |
|--|---------------------|--------------|
| | 2016 | 2015 |
| LIC Ireland goodwill (Other segment) | 353 | 353 |
| LIC Automation Limited (Farm Automation segment) | 4,144 | 4,144 |
| Beacon Automation Pty Limited (Other segment) | 6,082 | - |
| | 10,579 | 4,497 |

For the purpose of impairment testing, the Database intangible asset is allocated to the Farm Software and Herd Testing cash generating units

Notes to the Financial Statements

11 Biological assets

Biological assets are measured at fair value less point-of-sale costs, with any change therein recognised in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. The Group's biological assets comprise:

- Elite breeding bulls; and
- Other livestock including dairy cows, grazing stock and deer livestock

The fair value of elite bulls, for which there is no active market, is determined using a discounted cash flow approach. The elite bull team would fall under level 3 in the fair value hierarchy (see note 22).

The fair value of livestock held for trading is based on the observable market price of livestock of similar age, breed and genetic make-up. This livestock would fall under level 2 in the fair value hierarchy (see note 22).

In thousands of New Zealand dollars

| | Elite breeding bulls | Other livestock | Total |
|---|-------------------------------------|----------------------------|---------------|
| Balance at 1 June 2014 | 88,892 | 2,549 | 91,441 |
| Decrease due to sales | - | (1,020) | (1,020) |
| Change in fair value less estimated point-of-sale costs - Elite | 3,763 | - | 3,763 |
| Change in fair value less estimated point-of-sale costs - Other | - | 885 | 885 |
| Balance at 31 May 2015 | 92,655 | 2,414 | 95,069 |
| Non-current | 92,655 | - | 92,655 |
| Current | - | 2,414 | 2,414 |
| Balance at 31 May 2015 | 92,655 | 2,414 | 95,069 |
| Balance at 1 June 2015 | 92,655 | 2,414 | 95,069 |
| Decrease due to sales | - | (774) | (774) |
| Change in fair value less estimated point-of-sale costs - Elite | (5,144) | - | (5,144) |
| Change in fair value less estimated point-of-sale costs - Other | - | 754 | 754 |
| Balance at 31 May 2016 | 87,511 | 2,393 | 89,905 |
| Non-current | 87,511 | - | 87,511 |
| Current | - | 2,393 | 2,393 |
| Balance at 31 May 2016 | 87,511 | 2,393 | 89,905 |

Notes to the Financial Statements

11 Biological assets (continued)

At 31 May 2016 elite breeding bulls comprised 1002 bulls (2015: 1029 bulls)

Valuation detail

The elite breeding bulls have been valued at fair value which is consistent with the valuation methodology used in prior years.

The valuation consisted of the following assumptions:

| | |
|---------------------------|--|
| WACC | annualised post tax rate 6.57 to 7.53 percent (2015: annualised post tax 7.44 to 7.74 percent) |
| Inflation rate net effect | 1.7 percent (2015: 2.65 percent) |
| Tax rate | 28 percent (2015: 28 percent) |

The impact of a one percent shift in tax would not have a material impact on the fair value of the elite breeding bulls. A 1% increase in the WACC rates would effect a change of -\$2.8m and a 1% decrease would increase the value by \$3.0m. A 1% inflation adjustment would cause a shift of +/- \$1.1m. It is estimated the current elite breeding bulls have a life of up to 8 years.

Key sensitivity areas in addition to the above are: sales product mix, pricing, bull team composition, and probability of success factor.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions in the model, could require a material adjustment to the carrying amount of the elite bull team.

The Group is exposed to a number of risks related to its biological assets:

Animal Health

The Group's elite team is exposed to the risk of a major disease outbreak in the New Zealand bovine herd.

Regulatory and environmental risks

The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure the systems in place are adequate to manage those risks.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of semen. Where possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis to ensure the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

The elite biological asset valuation is linked directly to the performance of the New Zealand dairy industry.

The Group is exposed to risks arising from market fluctuations in the price of the sale of other livestock.

The Group's livestock are exposed to the risk of loss from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks.

Notes to the Financial Statements

12 Investments & derivatives

The fair value of investments in equity securities, accounted for as available-for-sale financial assets, is determined by reference to their quoted bid price at the reporting date. This would fall under Level 2 of the fair value hierarchy (see note 22). Where an active market price is not available for available-for-sale financial assets the market value is determined by using a valuation technique. The valuation technique adopted for the Group is an earnings multiple methodology, and recent arms length transactions. The earnings multiple is determined with reference to known entities in a like sector. This would fall under Level 3 of the fair value hierarchy (see note 22).

The fair value of forward exchange contracts is based on their quoted market price. This would fall under Level 1 of the fair value hierarchy (see note 22).

In thousands of New Zealand dollars

Current investments

Derivatives

| | 2016 | 2015 |
|-------------------------------------|--------------|--------------|
| | (16) | 198 |
| | (16) | 198 |
| Non-current investments | | |
| Investment | 18 | 18 |
| Available-for-sale financial assets | 3,328 | 2,600 |
| | 3,346 | 2,618 |

An impairment expense relating to available for sale shares of \$0.050 million (2015: \$0.741 million) has been recognised in respect of an available for sale financial asset as its fair value had declined significantly below its carrying value and for a prolonged period of time.

13 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

In thousands of New Zealand dollars

Semen
Equipment
Other

| | 2016 | 2015 |
|--|---------------|---------------|
| | 3,082 | 3,059 |
| | 11,155 | 9,682 |
| | 381 | 421 |
| | 14,617 | 13,162 |

In 2016, Inventories utilised and expensed during the period amounted to: \$19.717 million (2015: \$20.625 million). Inventories written off in 2016 totalled \$0.003 million (2015: \$0.080 million).

Notes to the Financial Statements

14 Trade receivables

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|--|---------------|---------------|
| Trade receivables | 36,830 | 30,593 |
| Due from related parties | - | 86 |
| Other receivables | 1,198 | 1,530 |
| | 38,028 | 32,209 |

15 Cash and cash equivalents

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|---|--------------|--------------|
| Bank | 2,667 | 2,523 |
| Cash and cash equivalents in the statement of cash flows | 2,667 | 2,523 |

16 Capital and reserves

Investment Shares are classified as equity because such instruments are redeemable only at the Parent's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

| <i>Share capital - Investment shares</i> <i>In thousands of shares</i> | 2016 | 2015 |
|---|---------------|---------------|
| On issue at 1 June | 29,529 | 29,529 |
| On issue at 31 May | 29,529 | 29,529 |

The Parent had 29,528,590 (2015: 29,528,590) authorised and fully paid Investment Shares on issue. These do not confer voting rights, but are tradable between Co-operative Control shareholders on the Alternative Board of the New Zealand Exchange Limited (NZAX). Employees of LIC are able to purchase Investment shares under the LIC Employee Share Scheme.

Investment shares have no par value and rank equally with regard to the Parent's residual assets.

Foreign Currency Hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Available for Sale Asset reserve

The reserve relates to the fair value adjustment for investments classified as available for sale.

Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings.

Dividends

The following dividends were declared and paid by the Group in the year ended 31 May:

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|---|-------------|-------------|
| 20.26 cents Final Investment Share dividend – paid in 2016 (2015: 35.9 cents) | 5,983 | 10,601 |

After 31 May 2016 no dividends were proposed by the Directors for 2016.

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|--|-------------|-------------|
| No dividend per Investment Share (2015: 20.26 cents) | - | 5,983 |

Notes to the Financial Statements

17 Co-operative Control Shares

Co-operative Control Shares are recognised as a liability because such instruments are redeemable at the option of the shareholder. Dividend payments made are indexed and preferred. Dividends thereon are recognised as finance expenses in profit or loss. They are classified as other liabilities at amortised cost.

When Co-operative control shares are repurchased, the amount of consideration paid is recognised as a reduction in that liability.

| <i>In thousands of shares</i> | Consolidated | |
|-------------------------------|---------------------|--------------|
| | 2016 | 2015 |
| On issue at 1 June | 6,474 | 6,292 |
| Own shares acquired | (904) | (907) |
| Issue of shares | 1,227 | 1,089 |
| On issue at 31 May | 6,797 | 6,474 |

The Parent had 6,796,790 (2015: 6,473,971) Co-operative Control Shares on issue at reporting date. The shares have a nominal value of \$1.00 each. All shares confer identical rights, privileges, limitations and conditions on the holders of the shares. Co-operative Control Shares must be redeemed when a Shareholder has ceased to be, or no longer has the capacity to be, a user of the Parent's products and services. Redemptions can occur either on application for voluntary surrender by the Shareholder or by the Parent pursuant to the Constitution.

The LIC Constitution provides for LIC Co-operative Control Shareholders to receive a dividend in preference to LIC Investment Shareholders. This preference dividend is based on Westpac New Zealand's farm first mortgage rate.

18 Earnings per share

The Group presents basic and diluted earnings per share ('EPS') data for its Investment Shares. Basic EPS is calculated by dividing the profit or loss attributable to investment shareholders of the Company by the weighted average number of investment shares on issue during the period. Diluted EPS is determined by adjusting the profit or loss attributable to investment shareholders and the weighted average number of investment shares outstanding for the effects of all dilutive potential investment shares. LIC has no potential dilutive Investment Shares.

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 May 2016 was based on the profit / loss attributable to Investment shareholders of a loss of \$4.015 million (2015: profit of \$13.669 million) and a weighted average number of shares outstanding of 29.529 million (2015: 29.529 million), calculated as follows:

| | | |
|---|----------------|---------------|
| <i>Profit/(loss) after tax attributable to investment shareholders</i> | | |
| <i>In thousands of New Zealand dollars</i> | | |
| | 2016 | 2015 |
| Net profit/(loss) for the period | (4,015) | 13,669 |
| <i>Weighted average number of Investment shares</i> | | |
| <i>In thousands of shares</i> | | |
| | 2016 | 2015 |
| Issued Investment shares at 1 June | 29,529 | 29,529 |
| Weighted average number of Investment shares at 31 May | 29,529 | 29,529 |
| <i>Earnings/(loss) per Investment Share after payment of Co-operative control share dividends</i> | | |
| <i>In New Zealand dollars</i> | | |
| | 2016 | 2015 |
| Earnings per Investment share | (0.136) | 0.463 |

There have been no significant dilutive effects on earnings per share.

Notes to the Financial Statements

19 Provisions

Provision for employee entitlements

The provision for employee entitlements relates to employee benefits such as long service leave, accrued annual leave and retirement allowances. The provision for retirement allowances is affected by the estimate of eligibility for the allowance (the employee must continue in employment until eligible for National Superannuation). The retirement allowance portion extends out over the next 30 years.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans, if the Group has a present legal or constructive obligation, to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

Provision for sire proving rebate

The provision for sire proving rebates relates to the cost of herd testing daughters resulting from sire proving inseminations. The provision is affected by a number of estimates including the expected number of heifer calves born and raised, and the herd testing options used. The non-current portion is payable within three years.

ACC Partnership Programme

Certain New Zealand based entities of the Group belong to the ACC Partnership Programme, whereby these entities accept the management and financial responsibility of work related illnesses and accidents of employees. Under the Programme these entities are liable for all their claims costs for a period of four years up to a specified maximum. At the end of the four-year period, these entities pay a premium to ACC for the value of residual claims, and the liability for ongoing claims from that point passes to ACC.

| <i>In thousands of New Zealand dollars</i> | Employee entitlements | Sire Proving Rebate | ACC Partnership Programme | Total |
|--|-----------------------|---------------------|---------------------------|--------------|
| Balance at 1 June 2015 | 4,997 | 2,964 | 267 | 8,228 |
| Additional provision made | (257) | 2,175 | 25 | 1,943 |
| Amount utilised | - | (1,517) | - | (1,517) |
| Balance at 31 May 2016 | 4,740 | 3,622 | 292 | 8,654 |
| Non-current | 3,405 | 2,351 | 73 | 5,829 |
| Current | 1,335 | 1,271 | 219 | 2,825 |
| Balance at 31 May 2016 | 4,740 | 3,622 | 292 | 8,654 |

Notes to the Financial Statements

20 Trade and other payables

In thousands of New Zealand dollars

| | Consolidated | |
|---|---------------------|---------------|
| | 2016 | 2015 |
| Trade payables | 19,233 | 20,185 |
| Short term employee entitlements | 1,270 | 862 |
| Non-trade payables and accrued expenses | 2,293 | 2,335 |
| | 22,796 | 23,382 |

21 Financial risk management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also acknowledged and the Group recognises the need to maintain a balance between the higher equity returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In managing its capital, the Group is subject to certain risks:

- Market risk from exposure to variability in foreign exchange rates
- Liquidity risks which would compromise the Group's ability to meet short term obligations
- Interest rate risk is the risk the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and deposits and on its borrowings.

During the financial year the Group was in compliance with all externally imposed requirements such as banking covenants attached to borrowing facilities. The Group's capital management policies are regularly reviewed by the Board of Directors.

(a) Market Risk: Foreign Exchange

The Group's exposure to foreign currency risk can be summarised as follows:

In thousands of New Zealand dollars

| | USD | AUD | GBP | EUR | BRL |
|--|--------------|----------------|--------------|--------------|------------|
| 2015 | | | | | |
| Foreign currency risk | | | | | |
| Trade and other receivables | 2,303 | 487 | 2,240 | 1,553 | - |
| Cash balances | 102 | 674 | 686 | 82 | 316 |
| Trade and other payables | (105) | (385) | (470) | (118) | (154) |
| Net balance sheet exposure before hedging activity | 2,300 | 776 | 2,457 | 1,517 | 162 |
| Forward exchange contracts | | | | | |
| Notional amounts | (1,380) | (3,056) | - | (544) | - |
| Net un-hedged exposure | 920 | (2,280) | 2,457 | 973 | 162 |
| 2016 | | | | | |
| Foreign currency risk | | | | | |
| Trade and other receivables | 1,968 | 871 | 2,137 | 1,960 | 138 |
| Cash balances | 77 | 490 | 411 | 82 | 257 |
| Trade and other payables | (226) | (174) | (201) | (779) | (70) |
| Net balance sheet exposure before hedging activity | 1,818 | 1,187 | 2,347 | 1,263 | 325 |
| Forward exchange contracts | | | | | |
| Notional amounts | (1,896) | (1,807) | (38) | (301) | - |
| Net un-hedged exposure | (78) | (620) | 2,308 | 962 | 325 |

The Group utilises forward exchange contracts to mitigate its risk of exposure from foreign currency fluctuations. The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. The net fair value of forward exchange contracts used as hedges of forecast transactions at 31 May 2016 is a net liability of \$0.016 million (2015: \$0.198 million asset), comprising assets of \$0.100 million (2015: \$0.235 million) and liabilities of \$0.116 million (2015: \$0.037 million).

It is estimated that a general increase of 1 percent in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit before income tax by approximately \$0.029 million for the year ended 31 May 2016 (2015: \$0.053 million).

(b) *Liquidity Risk*

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis.

The Group's exposure to liquidity risk can be summarised as follows:

In thousands of New Zealand dollars

| | 2016 | | 2015 | |
|---|---------------|---------------------|---------------|---------------------|
| | Total | Repayable on demand | Total | Repayable on demand |
| Trade and other payables | 22,796 | 22,796 | 23,382 | 23,382 |
| Co-operative control shares | 6,797 | 6,797 | 6,474 | 6,474 |
| Bank loans and borrowings | 32,771 | 32,771 | 10,354 | 10,354 |
| Total non derivative liabilities | 62,364 | 62,364 | 40,210 | 40,210 |

The Group's exposure to liquidity risk from Trade and other receivables arises when there is a risk of the counter-party defaulting. This risk increases with the age of the balance owing. The aging of Trade and other receivables at the reporting date is as follows:

In thousands of New Zealand dollars

| | Gross receivable | Impairment Provision | Gross receivable | Impairment Provision |
|-----------------------|------------------|----------------------|------------------|----------------------|
| | 2016 | 2016 | 2015 | 2015 |
| Trade receivables | | | | |
| Not past due | 36,613 | - | 31,075 | - |
| Past due 0-30 days | 758 | - | 687 | - |
| Past due 31-120 days | 443 | (21) | 361 | (27) |
| Past due 121-360 days | 324 | (89) | 170 | (57) |
| Total | 38,138 | (110) | 32,293 | (84) |

There were no material trade receivables expensed as bad debts during the year (2015: \$nil)

(c) *Interest Rate Risk*

Interest rate risk is the risk the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and loans.

In thousands of New Zealand dollars

| | 2016 | | 2015 | |
|---|---------------|------------------|---------------|------------------|
| | Total | 6 months or less | Total | 6 months or less |
| Interest bearing instruments | | | | |
| Cash and cash equivalents | 2,667 | 2,667 | 2,523 | 2,523 |
| Bank loans and borrowings | 32,771 | 32,771 | 10,354 | 10,354 |
| Term loans | 10,000 | - | - | - |
| Total interest bearing instruments | 45,438 | 35,438 | 12,877 | 12,877 |

The effective interest rate achieved on call deposits in 2016 was nil percent (2015: 3.71 percent).

The weighted average interest rate paid on borrowings in 2016 was 3.08 percent (2015: 4.70 percent).

At 31 May 2016 it is estimated that a general increase of one percent in interest rates would decrease the Group's profit / increase the Group's loss before income tax by approximately \$0.428 million (2015: \$0.078 million).

Bank loans and borrowings are secured by a Negative Pledge granted to Westpac and RaboBank over certain New Zealand based subsidiaries. The term borrowing facility expires in 2020.

Notes to the Financial Statements

22 Fair value hierarchy

Fair values

The carrying value of assets are not significantly different to their fair value.

The methods used in determining the fair values of financial instruments are discussed in notes 12 and 21.

The methods used in determining the fair values of fixed assets are discussed in note 9.

The methods used in determining the fair values of biological assets are discussed in note 11.

Fair value hierarchy

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

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

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

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

| 2016 | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|---------|---------|---------|--------|
| Derivatives | - | (16) | - | (16) |
| Available for sale financial assets | 1,295 | 1,889 | 162 | 3,346 |
| Land & Buildings | - | 69,015 | - | 69,015 |
| Biological assets | - | - | 89,906 | 89,906 |

Reconciliation of investments defined as level 3:

| | |
|--|------------|
| Opening balance | 213 |
| Movements in fair value through reserves | (52) |
| Transfer to level 2 | - |
| | <u>162</u> |

| 2015 | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|---------|---------|---------|--------|
| Derivatives | - | 198 | - | 198 |
| Available for sale financial assets | 1,037 | 1,350 | 213 | 2,600 |
| Land & Buildings | - | 65,529 | - | 65,529 |
| Biological assets | - | - | 95,069 | 95,069 |

Reconciliation of investments defined as level 3:

| | |
|--|------------|
| Opening balance | 289 |
| Movements in fair value through reserves | (76) |
| Transfer to level 2 | - |
| | <u>213</u> |

Notes to the Financial Statements

23 Operating leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Operating leases are not recognised on the balance sheet, instead payments made under operating leases are expensed to profit and loss on a straight-line basis over the term of the lease.

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|--|--------------|--------------|
| Less than one year | 1,479 | 1,113 |
| Between one and five years | 2,816 | 2,413 |
| More than five years | 495 | 733 |
| | 4,791 | 4,260 |

The Group leases a number of facilities under operating leases. The leases vary in length depending on location, fit out and business need.

During the year ended 31 May 2016 \$1.404 million was recognised as an expense in the income statement in respect of operating leases (2015: \$1.205 million). \$0.124 million was recognised as income in respect of subleases (2015: \$0.127 million).

24 Capital commitments

As at 31 May 2016 the Group had entered into contracts to purchase fixed and intangible assets for \$0.540 million (2015: \$6.044 million). These commitments are expected to be settled in the following financial year.

25 Contingencies

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

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

| <i>In thousands of New Zealand dollars</i> | 2016 | 2015 |
|---|-----------------|---------------|
| Profit/(loss) for the period | (4,015) | 13,669 |
| Adjustments for: | | |
| Depreciation | 11,034 | 9,876 |
| Amortisation of intangible assets | 13,558 | 11,209 |
| Change in deferred taxation | (983) | 1,362 |
| Change in fair value of elite biological assets | 5,144 | (3,763) |
| Impairment | 50 | 825 |
| (Gain)/loss on sale of fixed assets | (332) | 1,393 |
| | 28,470 | 20,902 |
| Change in inventories (increase)/decrease | (1,455) | (2,403) |
| Change in trade receivables (increase)/decrease | (5,819) | 1,946 |
| Change in biological assets (increase)/decrease | 20 | 136 |
| Change in other current assets (increase)/decrease | (968) | 1,004 |
| Change in trade and other payables increase/(decrease) | (586) | (465) |
| Change in provisions increase/(decrease) | (1,269) | 266 |
| Items reclassified to/from Investing/Financing activities | 58 | (290) |
| | (10,019) | 194 |
| Net cash from operating activities | 14,436 | 34,765 |

Notes to the Financial Statements

27 Related parties

Parent and ultimate controlling party

The immediate parent and controlling party of the Group is Livestock Improvement Corporation Limited.

All the Directors, executive management and non-controlling interests are related parties of the Group. The Group has not identified other related parties.

Transactions with key management personnel

Key management personnel compensation comprised:

In thousands of New Zealand dollars

| | 2016 | 2015 |
|---|--------------|--------------|
| Short term employee benefits | 3,018 | 2,716 |
| Defined contribution superannuation plans | 94 | 115 |
| | 3,112 | 2,830 |

In thousands of New Zealand dollars

Sale of goods and services

| | 2016 | 2015 |
|--|-------|-------|
| Sale of goods and services to directors and key management personnel during period | 2,059 | 1,094 |

| | | |
|-------------------------------------|-----|----|
| Total balance outstanding at 31 May | 282 | 86 |
|-------------------------------------|-----|----|

| | Co-operative Shares | | Investment Shares | |
|--|---------------------|--------|-------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Shareholding of related parties | | | | |
| G Baldwin | 13,929 | 10,141 | 62,797 | 62,797 |
| M Jagger | 1,327 | 1,433 | 21,967 | 21,967 |
| D Jensen | 1,593 | 1,395 | 2,710 | 2,710 |
| M King | 7,002 | 8,401 | 21,869 | 21,869 |
| S Poole | 2,211 | 1,745 | 21,219 | 21,219 |
| A Reid | 6,609 | 6,763 | 90,240 | 90,240 |
| A Watters | 8,004 | 10,218 | 7,465 | 7,444 |

All Directors excluding Mr Lough, Mrs Foote and Ms Kinser are customers of the Parent and purchase products and services for their farming activities on an ongoing and arms length basis. Mr Waldvogel, also a Director during the year, is not a customer either. Shares in LIC held by shareholding entities, where LIC Directors are also a Director but may not have ownership, are included in the above shareholding of related parties.

Employee share scheme

Craigs Investment Partners Limited on behalf of the Company acts as manager for the LIC Employee Share Scheme. Costs of \$0.019 million were incurred in running the scheme for the year (2015: \$0.012 million). Executive management shareholdings fall under this scheme.

Loan from related party

During the year a non-controlling interest advanced \$1.608M to the Group. The loan has a current prevailing interest rate of 3.25 percent. The loan is unsecured and repayable on demand.

Notes to the Financial Statements

28 Group investments

The financial statements of Livestock Improvement Corporation Group consolidate the results of the following subsidiaries, over which the Group has control as the Group holds more than 50% of the voting interests in these entities.

Subsidiaries

| Name | Country of Incorp | Class of Share | Voting Interest Held | | Balance Date | Principal Activity |
|---|-------------------|----------------|----------------------|--------|--------------|---------------------------------------|
| | | | 2016 % | 2015 % | | |
| Livestock Improvement (New Zealand) Corporation Ltd | NZ | Ordinary | 100 | 100 | 31-May | Holding Company |
| Livestock Improvement Corporation (UK) Ltd | UK | Ordinary | 100 | 100 | 31-May | Semen Sales |
| Livestock Improvement Pty Ltd | Australia | Ordinary | 100 | 100 | 31-May | Semen Sales |
| LIC Deer Ltd | NZ | Ordinary | 100 | 100 | 31-May | Deer Artificial Breeding |
| LIC Ireland Ltd | Ireland | Ordinary | 100 | 100 | 31-May | Semen Sales |
| Paul Shewan & Co Pty Ltd (Trading as Northern Feed Systems) | Australia | Ordinary | 100 | 100 | 31-May | Farm Automation Systems – non-trading |
| FarmKeeper Pty Ltd | Australia | Ordinary | 100 | 100 | 30-Jun | Farm Mapping Software |
| Overland Corner Holding Pty Ltd | Australia | Ordinary | 100 | 100 | 30-Jun | Farm Mapping Software |
| LIC USA Ltd | USA | Ordinary | 100 | 100 | 31-May | Marketing Support |
| LIC Automation Limited | NZ | Ordinary | 100 | 100 | 31-May | Farm Automation Systems |
| NZ Brasil Producao Animal Ltda | Brazil | Ordinary | 70 | 70 | 31-Dec | Semen Sales |
| Beacon Automation Pty Ltd | Australia | Ordinary | 75 | - | 31-May | Heat Detection Aids |

The assets and liabilities of foreign operations are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions.

Notes to the Financial Statements

29 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Assets and Liabilities are reported at their fair values with the excess between these fair values and consideration paid recognised as goodwill. Where this excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Business combinations occurring during the reporting period

On 1st February 2016, the Group purchased 75% of the equity of Beacon Heat Detectors Pty Ltd for \$6.493M.

Beacon Heat Detectors Pty Ltd (renamed Beacon Automation Pty Limited after acquisition) specialises in the development and manufacture of heat detection aids.

Goodwill recognised at acquisition was \$6.082M. The goodwill is underpinned by the unique and superior adhesive qualities of the product and the synergies between the combined businesses as the patch technology is specifically designed to work with LIC Automation Heat detection camera technology.

Acquisition-related costs of \$0.476 million have been included in other expenses in the income statement for the year ended 31 May 2016.

The impact of the results of this subsidiary are not considered material to those of the Group.

30 Subsequent events

No dividend declared refer to note 21. There are no other material subsequent events.



Independent auditor's report

To the shareholders of Livestock Improvement Corporation Limited

We have audited the accompanying consolidated financial statements of Livestock Improvement Corporation Limited and its subsidiaries ("the group") on pages 1 to 27. The financial statements comprise the consolidated balance sheet as at 31 May 2016, and the income statement, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the 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 company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the consolidated financial statements

The directors are responsible on behalf of the company 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), and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Our firm has also provided other services to the group in relation to taxation consulting. 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.

Opinion

In our opinion, the consolidated financial statements on pages 1 to 27 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Livestock Improvement Corporation Limited as at 31 May 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

A handwritten signature of the KPMG firm, written in black ink, appearing as 'KPMG' in a stylized, cursive font.

20 July 2016
Hamilton



LIC® Full Year Result 2015-2016

LIC revenue from ordinary activities was \$205 million and including other income from grants, totalled \$211 million in 2015-2016. This is 9% down on the total revenue of \$232 million achieved in 2014-2015.

Net Profit After Tax (NPAT) was a loss of \$4 million, down from a profit of \$13.7 million the previous year. This decrease reflects the reduced spend on-farm in the current dairy downturn and LIC's continued investment on core technology, R&D and new product development.

NPAT includes the annual revaluation required under accounting standards to "fair value" of the biological elite bull team which, this year, resulted in a decrease net of tax of \$3.7 million to a value of \$87.5 million in 2015-16 compared to a value of \$92.6 million in 2014-15. LIC also reports an Underlying Net Earnings (NPAT excluding the increase or decrease on fair value of elite biological assets and the related tax effect) which was a small loss of \$300,000 this year (\$11 million profit 2014-2015).

LIC will not pay a dividend this year as the company did not produce positive Underlying Net Earnings during the year. The result is in line with forecasts made to the market (NZX) of a break-even position for the full 2015-2016 year, reflecting the expected impact of the lower milk payout and the co-operative's long-term capital investment programme. Lower milk prices have impacted on-farm buying decisions as many farmers look to reduce costs, going into survival mode through these difficult times.

Our balance sheet remains strong with total assets including cash, software, land and buildings and bull teams of \$323 million, an increase of \$21 million over the previous year, with a strong equity ratio of 65%. Bank loans were \$41 million at year-end.

The LIC Board views this result as reflective of the current dairy downturn. The downturn is now expected to last longer than analysts had predicted and is putting our farmers under major cash constraints. All suppliers to dairy farmers face challenging times but we remain committed to our vision to improve dairy farmers' prosperity and productivity, and we remain committed to our strategy.

LIC's genetics, based on competitive grass-based farming systems, are more important than ever in these tough times – as New Zealand dairy farmers look for effective opportunities to increase their efficiency.

During the 2015-2016 year, LIC continued to experience steady demand for our core artificial breeding products and services. More discretionary areas of spending on-farm saw a decline in LIC sales, mainly in Herd Testing and big ticket automation products. Herd Testing sales are now increasing as farmers are reminded of the value of the information provided through Herd Testing and realise they can't go another season without it. Some farmers continued to invest in new technologies from LIC in 2015-2016 to improve their prosperity and productivity. Animal Health products and LIC's GeneMark® DNA parentage testing service performed well and achieved budgeted levels.

Despite the tough environment, it was another strong year of innovation for LIC. A large investment was made in taking MINDA® into a new world with the introduction of MINDA LIVE at Fieldays 2016. MINDA LIVE is the new online version of the herd management system that 95% of New Zealand farmers use. The new version operates in real-time and multiple users can enter data at the same time wherever they are on-farm. Access is available via broadband, fixed or mobile, on any computer, tablet, or mobile devices.

Investment will continue in this new product to enhance it further in the year ahead. Other new products

include an automated Body Condition Score camera system developed and launched by LIC Automation™ in conjunction with DeLaval; prototyping of full farm performance systems; commercialisation of a new milk pregnancy test; and the launch of EZ Heat® Herringbone (following the success of EZ Heat Rotary).

LIC's ongoing commitment to research and development (R&D) is also reflected in the year-end result, with expenditure totaling \$16.9 million (8% of revenue). This compares to total R&D expenditure in 2014-15 of \$16.9 million (7.4% of revenue). Work in 2015-2016 included continued research to improve the accuracy of genomic predictions, finalising the Body Condition Score system and research into further animal health diagnostic tools.

LIC also continues to invest in its business for the long-term, to improve service delivery, to ensure high quality bulls and enable more R&D and new product development. Capital investment in 2015-2016 totalled \$34 million.

LIC, like farmers, has also focused on areas we can become more efficient and we continue to review all aspects of our business to identify opportunities for cost efficiency and elimination, and potential new revenue opportunities. We remain committed to delivering an excellent on-farm operational service but during the last year made substantial reductions in costs. We have been reducing costs such as travel and training, focusing capital IT investments on key areas only, extending working life of assets and recruiting only essential personnel.

We have started work with external consultants to identify other areas of opportunity to both increase revenue, and to reduce costs through identifying further efficiency gains.

LIC growth strategy

During the 2015-2016 year, LIC continued to work with a range of partners and also acquired Beacon Heat Detection Ltd in Australia. The acquisition supports LIC's core business of artificial breeding and its strategy to deliver genetics and information to create superior livestock.

A roadshow was held with shareholders in June 2016 as we took your advice from the 2015 roadshow and "talked out loud" about potential plans to change the structure of the business. These plans involve splitting the company into two parts, a herd improvement co-operative focused on genetic gain at affordable prices; and an agritech company focused on developing new software, hardware and sensing systems for New Zealand and international farmers. The Board is now considering shareholder feedback and will update shareholders at the AGM in October. Any proposal for external equity in the agritech company would have to go to a shareholder vote, possibly in 2017.

GOVERNANCE REPORT

Role of Board of Directors

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. Legislation, the NZAX Listing Rules and the Constitution establish the Board's responsibility and include provisions for how the Co-operative will operate.

Responsibility

The Board is responsible for setting the strategic direction, approval of significant expenditures, policy determination and stewardship of the Co-operative's assets. The Board and the security holders shall not, except with the written consent of the 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.

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 Co-operative Control Shareholders who have voting rights in proportion to their use 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.

Pricing of Products and Services

In setting prices to be paid for products and services the Company should seek to create wealth for the Company and its Shareholders, supply products and services at commercial prices reflecting market conditions, taking into account the Company's co-operative principles and key strategic objectives set by the Board and approved by the Shareholder Council.

Principal Activities

The Board has a responsibility to ensure the principal activities of the Company are the co-operative activities of supplying goods and services to its Shareholders with particular reference to:

- 1 Measurement and evaluation of growth, yield of milk or milk constituent and feed conversion efficiency of livestock, and any other relevant decisions on breeding and management of livestock;
- 2 The development and commercial application of artificial breeding for livestock; and
- 3 Improvement of livestock and farm management practices through products based on genetics, biotechnology, automation, information and advice.

Board Composition

The Board is comprised of seven Elected Directors elected by the Co-operative Control Shareholders within the region each Director represents (four regions in total) and up to three Appointed Directors. Elected Directors hold office for a period of four years and Appointed Directors for up to three years. A retiring Director is eligible for re-election as a Director of the Company.

Current Board

Elected Directors are Messrs M King (Chair), G Baldwin, M Jagger, D Jensen, S Poole, A Reid and Dr A Watters.

Appointed Directors are Messrs P Lough, J Waldvogel (retired October 2015), Mrs A Foote and Ms C Kinser (appointed October 2015).

Election of Directors

The Directors elected by the Midland region (Mr G Baldwin and Mr D Jensen) retired by rotation in 2016. Mr Baldwin and Mr Jensen, being eligible, offered themselves for re-election. Four nominations were received for the two positions on the Board, resulting in Mr G Baldwin and Mr D Jensen being re-elected for a further four year term effective 1 June 2016.

Appointed Director Mr J Waldvogel retired by rotation in October 2015 and did not seek re-election. Ms C Kinser was appointed for a three year term at the 2015 Annual Meeting.

Committees

The Board uses committees to facilitate effective decision-making.

Audit Finance & Risk Committee

A Sub-Committee of the Board, the Audit Finance and Risk Committee ensures the Company complies with its audit, financial and risk management responsibilities. Up to six Directors are on the Committee, which was chaired by Appointed Director, Mrs A Foote.

The Audit Committee meets at least four times a year with external Auditors and Senior Executives and met five times in 2015/16.

Disclosure Committee

This 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. The Committee comprises two Directors and Senior Executives and is chaired by the Chair of the Board, Mr M King.

The Committee meets as and when required and met four times in 2015/16.

Remuneration and Appointment Committee

This Sub-Committee of the Board comprises up to four Directors and is chaired by Appointed Director, Mr P Lough. The Committee approves appointments and terms of remuneration of the Chief Executive, oversees the People Policies for LIC and it also considers, and if appropriate recommends to the Board, any wage and salary percentage adjustments for the Co-operative's employees.

The Committee meets at least four times a year and met four times in 2015/16.

Shareholder Committee

A Sub-Committee of the Board comprised of seven Directors, and chaired by Mr M Jagger, the Shareholder Committee's role includes ensuring the Company has an appropriate Constitution, representation and share structure.

The Committee meets as and when required and met once in 2015/16.

Capital Structure Committee

A Sub-Committee of the Board comprised of five Directors, and chaired by Mr P Lough, the Capital Structure Committee's role is to assist the Board through a review of LIC's capital structure.

The Committee meets as and when required and met twice in 2015/16.

Meetings

The Board met eight times in 2015/16 with three additional strategy session days.

Policies

LIC has in place policies in relation to a code of ethics, continuous disclosure, communication, disclosure and publication, legislative compliance, risk management and terms of reference/charters for the Parent's Board and Board Sub-Committees.

Share Trading and Disclosure

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

The Policy outlines:

- (a) when Directors, Councillors, Restricted Persons and other Employees of the Company may deal in the securities 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 securities of the Company.

The Policy aims to protect Directors, 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 securities.

SHAREHOLDING

Co-operative Control Shares

An Elected Director shall hold the minimum Co-operative Control Share holding requirement.

Investment Shares

An Elected Director can hold Investment Shares in accordance with the Company's Constitution.

Interests Register

A Directors' Interest Register is maintained and Directors' interest in transactions during the financial year are outlined on page 36 of the report.

STATUTORY REQUIREMENTS

Nature of LIC Business

The Parent 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.

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

G Baldwin:

Director of Ballance Agri-Nutrients Ltd (Ballance owns Aghub Ltd), Trinity Lands Ltd (Registered Charity), Longview Trust Board (37% shareholder in Trinity Lands Ltd), Regen Ltd and Trustee of South Waikato Drive Trust

A Foote:

Director of Z Energy Ltd, New Zealand Local Government Funding Agency Ltd, BNZ Life Insurance Ltd, BNZ Insurance Services Ltd and Diligent Board Member Services Inc.

D Jensen:

Director of Farmland Co-operative Society and Figured Limited.

M King:

Director of Milktech Limited, Scott Milktech Limited, Waimea Community Dam Limited, Long Plantation Investments Limited, Callura Dairies Management Limited and Dry Steam Irrigation Company Limited.

C Kinser:

Director of Cloud Security Alliance (NZ Chapter), EROAD, Talent International, Quotable Value Ltd. Advisor to Palantir Technologies.

P Lough:

Director of Methven Ltd, Quotable Value Ltd, Port of Nelson Ltd, MyFarm Trustee Limited and Fisher & Paykel Appliances Holdings Ltd.

S Poole:

Director and 50% owner of Poole Brothers Limited, La Salle House Limited. Trustee of Waimate West Demonstration Farm.

A Reid:

Director of Opuha Water Ltd, W.A. Systems (2003) Ltd, Farm Electric Ltd, Kakahu Irrigation Ltd, Totara Valley Irrigation Ltd, Reid Systems Ltd and Glenire Farm Ltd.

J Waldvogel (retired):

Director of DairiConcepts (USA) L.P., Global Dairy Concepts (USA) Inc and Global Dairy Platform (USA) Inc. Vice President Dairy Farmers of America, Inc.

A Watters:

Director of AsureQuality Limited. Shareholder (27.55%) of AgInvest Holdings Limited (AgInvest owns MyFarm Limited).

M Jagger:

Director of Marsden Maritime Holdings Ltd.

DIRECTORS AND REMUNERATION

Directors of the Parent received the following remuneration for the twelve months ending 31 May 2016:

In thousands of New Zealand dollars

| | Fees |
|-------------|-------------|
| M King | 114 |
| G Baldwin | 47 |
| A Foote | 68 |
| M Jagger | 47 |
| D Jensen | 47 |
| C Kinser | 28 |
| P Lough | 60 |
| S Poole | 47 |
| A Reid | 47 |
| J Waldvogel | 19 |
| A Watters | 47 |
| | <u>47</u> |
| | 571 |

Whilst the Company's representative on the Board of Directors of Figured Limited, David Jensen received \$13,750 in remuneration from Figured Limited, from 1 June 2015 to 30 November 2015. He remained a Director of Figured Limited, in his own right, until 28 February 2016.

Directors of subsidiaries of the Company received the following remuneration for the twelve months ending 31 May 2016:

In thousands of New Zealand dollars

| | Fees |
|----------|-------------|
| R Dungey | 35 |
| E Ruiz | 54 |
| | <u>54</u> |
| | 89 |

All other Directors of subsidiaries are employees of the Company. Except as set out above, no employee appointed as a Director of a subsidiary receives 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 37. The Directors of the Company's subsidiaries are set out below:

Livestock Improvement (NZ) Corporation Limited: Linda Cooper, Murray King and Wayne McNee

LIC Deer Limited: Linda Cooper, Geoff Corbett and Wayne McNee

Animal Breeding Services Limited: Linda Cooper and Wayne McNee

LIC Automation Limited: Linda Cooper, Paul Littlefair, Wayne McNee and Richard Spelman

LIC Johnes Company Limited: Linda Cooper, Wayne McNee and Richard Spelman

Livestock Improvement Pty Limited: Geoff Corbett, Robert Bruce Dungey, Andrew Fear and David Willis

Farmkeeper Pty Limited: Geoff Corbett, Robert Bruce Dungey, Andrew Fear and David Willis

Overland Corner Holdings Pty Limited: Geoff Corbett, Robert Bruce Dungey, Andrew Fear and David Willis

Paul Shewen & Co Pty Limited: Geoff Corbett, Robert Bruce Dungey, Andrew Fear and David Willis

Beacon Automation Pty Limited: Linda Cooper, Jock Roberts, Paul Whiston

Livestock Improvement Corporation (UK) Limited: Linda Cooper, Wayne McNee, Mark Ryder

LIC USA Limited: Linda Cooper and Wayne McNee

LIC Ireland Limited: Linda Cooper, Niall O'Regan and Wayne McNee

NZ Brasil Producao Animal Ltda: Linda Cooper, Eduardo Marquez Palmerino and Edward Ruiz

ENTRIES IN THE INTEREST REGISTER

Participation in the Company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2016/2017 season. Directors participating in the scheme include:

| Director | Potential Calf Sales | Potential Value |
|----------|----------------------|-----------------|
| M King | 4 | \$44,000 |
| A Reid | 1 | \$11,000 |

(b) Share Dealings by Directors

As at 31 May 2016 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 | 2016 | | 2015 | |
|-----------|--------------|------------|--------------|------------|
| | Co-operative | Investment | Co-operative | Investment |
| G Baldwin | 3,092 | - | 3,155 | - |
| M Jagger | 1,327 | 21,967 | 1,433 | 21,967 |
| D Jensen | 1,593 | 2,710 | 1,395 | 2,710 |
| M King | 7,002 | 21,869 | 8,401 | 21,869 |
| S Poole | 2,211 | 21,219 | 1,745 | 21,219 |
| A Reid | 6,609 | 90,240 | 5,160 | 90,240 |
| A Watters | 1,050 | 7,428 | 918 | 7,428 |

Any increase in holdings of Investment Shares results from participation in LIC's Voluntary Investment Scheme.

(c) Loans to Directors of the Parent and Subsidiaries

There have been no loans during the year.

(d) Directors Indemnity and Insurance

The Parent has issued a Deed of Indemnity and insured all its Directors and Senior Managers against liabilities to other parties (except the Parent or related party) that may arise from their positions as Directors of the Parent and its Subsidiaries. The Indemnity and insurance does not cover liabilities arising from criminal actions.

(e) 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.

Employees' Remuneration

During the period 1 June 2015 to 31 May 2016 the following numbers of employees (not being Directors) received total remuneration, including benefits, of at least \$100,000:

| Remuneration Range (Gross) | Returning | Cessations | Total |
|----------------------------|-----------|------------|-------|
| 100,000 – 109,999 | 49 | 3 | 52 |
| 110,000 – 119,999 | 24 | 2 | 26 |
| 120,000 – 129,999 | 29 | 2 | 31 |
| 130,000 – 139,999 | 13 | 2 | 15 |
| 140,000 – 149,999 | 9 | | 9 |
| 150,000 – 159,999 | 11 | | 11 |
| 160,000 – 169,999 | 7 | 1 | 8 |
| 170,000 – 179,999 | 7 | | 7 |
| 180,000 – 189,999 | 5 | 2 | 7 |
| 190,000 – 199,999 | 3 | | 3 |
| 200,000 – 209,999 | 1 | | 1 |
| 210,000 – 219,999 | 2 | | 2 |
| 220,000 – 229,999 | 1 | | 1 |
| 240,000 – 249,999 | 1 | | 1 |
| 250,000 – 259,999 | | 1 | 1 |
| 260,000 – 269,000 | 1 | | 1 |
| 270,000 – 279,999 | 2 | | 2 |
| 280,000 – 289,999 | 1 | | 1 |
| 290,000 – 299,999 | | 1 | 1 |
| 300,000 – 309,999 | 1 | | 1 |
| 440,000 – 449,999 | | 1 | 1 |
| 920,000 – 929,999 | 1 | | 1 |
| Total | 168 | 15 | 183 |

RESOLUTION OF DIRECTORS

DATED 20 JULY 2016 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 2016.

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 2016

| Size of Shareholding | Number of Shareholders | Investment Shares Held | % of Total |
|----------------------|------------------------|------------------------|------------|
| 1-999 | 1,600 | 656,952 | 2.22 |
| 1,000-1,999 | 1,297 | 1,949,182 | 6.60 |
| 2,000-2,999 | 1,220 | 3,003,115 | 10.17 |
| 3,000-3,999 | 795 | 2,761,731 | 9.35 |
| 4,000-4,999 | 562 | 2,500,160 | 8.47 |
| 5,000-9,999 | 1,184 | 8,187,924 | 27.73 |
| Over 10,000 | 512 | 10,469,526 | 35.46 |
| Total | 7,170 | 29,528,590 | 100% |

Twenty Largest Shareholdings of Quoted Securities

| | Investment Shares Held | % of total Shares |
|---|---------------------------|----------------------|
| Anglesea Consulting Limited | 750,014 | 2.54 |
| Twin Terraces Limited | 343,913 | 1.16 |
| Custodial Services Limited - Employee Share Scheme | 214,789 | 0.73 |
| Mark Francis Slee + Devon Mathieson Slee | 128,806 | 0.44 |
| Malrose Properties Limited | 101,756 | 0.34 |
| Farnley Tyas Farms Limited | 93,188 | 0.32 |
| Bishop Farms Oxford Limited | 87,427 | 0.30 |
| The Grass Market Company Limited | 72,654 | 0.25 |
| Christopher John Stark + Graham Carr - Deebury Pastoral Partnership - Ealing | 70,433 | 0.24 |
| Broad Acres Farms Limited | 63,494 | 0.22 |
| Gillian Patricia Alice Gow + James Platt Gow + Matthew Platt Gow - Gow Family Trust | 59,400 | 0.20 |
| Christopher John Stark + Graham Carr - Deebury Pastoral Partnership - Maronan | 58,031 | 0.20 |
| Riverholme Pastures Limited | 52,730 | 0.18 |
| Stuart Bruce Bay + Doris Beth Bay - Bay Family Trust | 51,493 | 0.17 |
| South Hilton Limited | 50,070 | 0.17 |
| James Austin Wilkins + Donna Maree Wilkins - Jad Wilkins Partnership | 49,634 | 0.17 |
| S & P Atkinson Farms Limited | 49,387 | 0.17 |
| Rotokaia Farm Limited | 48,930 | 0.17 |
| Andrew Edward Peck + Fiona Louise Peck - Balrath Farm Partnership | 47,882 | 0.16 |
| Hammond Limited | 46,588 | 0.16 |
| | | <hr/> <hr/> |
| | | 8.29 |

Credit Rating Status

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

Substantial Security Holders

As at 31 May 2016, 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 \$57,914 during the year ended 31 May 2016 (2015: \$3,838).

Non-Standard Listing

Livestock Improvement Corporation Limited has been classified as a Non-Standard NZAX Issuer by the NZX, pursuant to NZAX Listing Rule 5.1.3, by reason of it being a Co-operative Company having a Constitution which includes provisions having the following effect:

The acquiring of Investment Shares is restricted to New Zealand dairy farmers who hold Co-operative Control Shares and who purchase qualifying products and services from Livestock Improvement Corporation Limited; and

holders of Investment Shares have no voting rights (except on matters affecting the rights of Investment Shareholders).

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

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.
- 2 Rule 3.2.2 to allow for the following aspects of the Company’s corporate governance structure:
 - (a) Directors to be nominated by Co-operative Control Shareholders, by region, pursuant to clause 25.4(b) and Schedule 3 of the Constitution;
 - (b) Certain qualifications to be required of directors as set out in paragraphs 1(a) and 2 of Schedule 3 of the Constitution;
 - (c) The nomination procedure for directors as set out in paragraph 1(b) of Schedule 3 of the Constitution.
- 3 Rule 3.2.3 to permit the provisions of paragraph 1(e) of Schedule 3 of the Constitution to allow for the filling of casual vacancies by the Board, where the position becomes vacant less than 8 months before the date on which the director is due to retire by way of rotation.
- 4 Rule 3.2.6 to allow for the rotation of Elected Directors as set out in clause 26 and clauses 1(c) and (d) of Schedule 3 of the Constitution whereby Elected Directors are due to retire on the 1st day of June in each year, on a regional basis, so that a rotation schedule of 4 years for Elected Directors is permitted.
- 5 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.
- 6 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 20 of the Constitution (which provides for a more extensive lien on Securities) is allowed.
- 7 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 Co-operative Control Shareholders (whose control is directly proportionate to the amount of products and services purchased by each such shareholder);
 - (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) Clauses 10.1(b) and (d) of the Constitution place restrictions on the persons who may hold Investment Shares so that such shares are only held by a Co-operative Control Shareholder, or the Company, or Approved Holding Entity, or an Employee Scheme Holder (or by other persons in certain limited specified circumstances);
 - (e) Clauses 10.2 to 10.7 (inclusive) of the Constitution place restrictions on how Investment Shares may be held. Clause 10.3 imposes a Maximum Investment Shareholding of not more than 5 percent of the total number of Investment Shares currently on issue. Clause 10.4 provides for disposal of Investment Shares upon a person ceasing to be a Co-operative Control Shareholder. Clause 10.6 permits an Approved Holding Entity to hold Investment Shares to administer any Voluntary Investment Scheme and Dividend Reinvestment Plan. Clause 10.7 provides for shares to be held in Brokers’ Accounts;
 - (f) Clause 10.8 of the Constitution authorises the Board to establish an Employee Share Purchase Scheme which may hold up to 5 percent of the total number of Investment Shares currently on issue;
 - (g) Clause 13.5 of the Constitution permits the Board to refuse to register transfers of Investment Shares where the transfer would breach the restrictions referred to in paragraph 7(e), or would otherwise be in breach of the Constitution, and clause 13.5A empowers the Board to require proof that shares are not being acquired for the benefit of third parties;
 - (h) The consent of the Minister for Primary Industries (or other relevant Minister) is required under the Dairy Industry Restructuring Act 2001 to any changes to who may hold shares, maximum voting rights and postal voting and this requirement must therefore take precedence over all other provisions in the Constitution and the Listing Rules.

- 8 NZX has approved differences in text between certain Listing Rules and the provisions of the Constitution as follows:
- (a) The definition in clause 2.1 of “Average Market Capitalisation” has been amended to take account of the fact that it is only the Investment Shares, which will have a market capitalisation value, and therefore the nominal value of the Co-operative Control Shares will be added to that value. This definition is relevant in relation to section 9 of the Listing Rules in relation to Major Transactions and Material Transactions;
 - (b) Clause 3.5.1(a) of the Constitution reflects Rule 7.3.1(a). However that Rule only requires approval to be given by the classes of Quoted Equity Securities. As the Investment Shares are the only class of shares quoted, the definition in the Constitution excludes the word “Quoted”, so that under clause 3.5.1(a) the approval of each class of Equity Securities is required regardless of whether or not they are Quoted;
 - (c) Clause 3.5.2(a) of the Constitution provides for the reference in Rule 7.3.1(a) to “Quoted Equity Securities” to be deemed a reference to “Equity Securities”, as the Co-operative Control Shares are not Quoted;
 - (d) Clause 3.5.2(b) of the Constitution provides for the reference in Rule 7.3.4(c) to “Equity Securities carrying Votes” to be deemed a reference to “Investment Shares” as Investment Shares do not have voting rights (except in very limited circumstances);
 - (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.

**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 Investment Shares on the NZAX 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 \$18,000.

In relation to the financial assistance provided for the Dividend Plan, the LIC Board resolved on 20 July 2016 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 Investment 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 Investment Shares will be purchased by Craig Investment Partners Limited ("Craigs") at the NZAX market price and participating shareholders will pay the average NZAX market price paid by Craigs on market for those Shares;
- (e) The Dividend Plan will enhance the liquidity in the market for the Investment 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 Investment 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.

B Voluntary Investment Scheme: LIC proposes to provide financial assistance to those Shareholders who elect to participate in the Voluntary Investment Scheme ("Investment Scheme") by agreeing to pay to The New Zealand Guardian Trust Limited ("Guardian") as the Approved Holding Entity the annual services fee and other fees, brokerage costs, and commission incurred for the purposes of the Investment Scheme. Craig Investment Partners Limited ("Craigs") has been appointed as the Broker to purchase the Investment Shares on the NZAX market for the purposes of the Investment Scheme, and the moneys paid by LIC to Guardian Trust as Approved Holding Entity will include any fees, brokerage and commission costs of Craigs.

LIC is required to make disclosure to all Shareholders in respect of this proposed financial assistance. The exact amount of the net costs depends upon the extent to which Shareholders participate in the Investment Scheme. However the total amount of net costs in the next 12 months is estimated to be in the region of \$20,000.

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 20 July 2016 that LIC should provide the financial assistance referred to above ("VIS 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 VIS Assistance is in the best interests of LIC and is a benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the VIS 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 VIS Assistance enables LIC to provide shareholders with an efficient means of acquiring additional Investment Shares in LIC without incurring transaction costs which they would otherwise incur;
- (b) The VIS Assistance is available to all shareholders, giving equal opportunity to participate in the benefits of the Investment Scheme;
- (c) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the Investment Scheme;
- (d) The additional Investment Shares will be purchased by Craigs at the NZAX market price and participating Shareholders will pay the average NZAX market price paid by Craigs on market for those Shares;
- (e) The Investment Scheme will enhance the liquidity in the market for the Investment Shares, providing a more liquid market for both participating and non-participating Shareholders wishing to sell Investment Shares;
- (f) The Investment Scheme enables LIC to offer Shareholders a mechanism to invest 4 percent of their annual spend on purchases of Qualifying Products and Services in Investment Shares, without resulting in unnecessary new capital being raised through the issue of new Investment Shares; and
- (g) The amount of financial assistance is minimal in comparison to the benefits arising out of the Investment Scheme for Shareholders and LIC.

C 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 \$24,000.

The Board of LIC resolved on 20 July 2016 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 Investment Shares;
- (c) Shareholders will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the Employee Scheme;
- (d) The additional Investment Shares will be purchased through Craigs at the NZAX market price;
- (e) The Employee Scheme will enhance the liquidity in the market for the Investment 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.