

Livestock Improvement Corporation Limited (LIC)

ANNUAL REPORT

Year Ended 31 May 2014



**Income Statement**  
**For the year ended 31 May 2014**

<i>In thousands of New Zealand dollars</i>	Note	Consolidated		Parent	
		2014	2013	2014	2013
<b>Revenue</b>	6	207,423	193,624	198,687	186,539
Other income	7	4,119	5,844	4,085	5,833
Purchased materials		(30,946)	(29,204)	(29,001)	(27,322)
Staff expenses	10	(89,597)	(82,998)	(85,732)	(79,947)
Depreciation	13	(8,581)	(7,301)	(8,109)	(6,902)
Amortisation	14	(8,461)	(6,403)	(8,421)	(6,403)
Impairment	8	619	(325)	(181)	(320)
Other expenses	9	(49,258)	(45,939)	(47,351)	(44,432)
<b>Earnings before finance activities, taxation and fair value adjustments - elite biological assets</b>		<b>25,318</b>	<b>27,298</b>	<b>23,976</b>	<b>27,047</b>
Finance income	11	1,354	2,144	1,464	2,179
Finance expenses	11	(746)	(962)	(747)	(873)
Fair value adjustments - elite biological assets	15	(787)	3,784	(787)	3,784
<b>Earnings before taxation</b>		<b>25,139</b>	<b>32,264</b>	<b>23,906</b>	<b>32,137</b>
Tax expenses on fair value adjustments - elite biological assets		220	(1,060)	220	(1,060)
Tax expenses - other		(7,313)	(7,546)	(7,196)	(7,524)
<b>Total tax expense</b>	12	<b>(7,093)</b>	<b>(8,606)</b>	<b>(6,976)</b>	<b>(8,584)</b>
<b>Profit for the year attributable to the owners of the Company</b>		<b>18,046</b>	<b>23,658</b>	<b>16,930</b>	<b>23,553</b>
<b>Earnings per share</b>	23				
Basic and diluted earnings per investment share (NZD)		0.611	0.801		

<b>Supplementary note to the Income Statement</b>				
<b>Profit for the year</b>	<b>18,046</b>	<b>23,658</b>	<b>16,930</b>	<b>23,553</b>
(Profit)/loss on fair value of elite biological assets	787	(3,784)	787	(3,784)
Tax effect on (profit)/loss on fair value of elite biological assets	(220)	1,060	(220)	1,060
<b>Underlying net earnings excluding elite biological assets and tax thereon</b>	<b>18,613</b>	<b>20,934</b>	<b>17,497</b>	<b>20,828</b>

**Statement of Comprehensive Income**  
**For the year ended 31 May 2014**

*In thousands of New Zealand dollars*

	Note	Consolidated		Parent	
		2014	2013	2014	2013
<b>Profit for the year</b>		<b>18,046</b>	<b>23,658</b>	<b>16,930</b>	<b>23,553</b>
<b>Other comprehensive income (net of income tax)</b>					
Effective portion of changes in fair value of cash flow hedges		(23)	9	(23)	9
Net change in fair value of available for sale financial assets		247	(76)	220	-
Revaluation of property plant and equipment		2,385	696	2,304	443
Other comprehensive income for the year, net of income tax		2,609	629	2,502	452
<b>Total comprehensive income for the year</b>		<b>20,655</b>	<b>24,287</b>	<b>19,432</b>	<b>24,005</b>
<b>Attributable to:</b>					
Owners of the company		20,655	24,287	19,432	24,005
<b>Total comprehensive income for the year</b>		<b>20,655</b>	<b>24,287</b>	<b>19,432</b>	<b>24,005</b>

**Balance Sheet**  
**As at 31 May 2014**

*In thousands of New Zealand dollars*

	Note	Consolidated		Parent	
		2014	2013	2014	2013
<b>Assets</b>					
Fixed assets	13	77,030	71,073	69,622	63,940
Intangible assets	14	50,076	35,829	44,590	35,254
Biological assets	15	88,892	89,679	88,892	89,679
Investments & derivatives	16	1,665	1,413	1,142	922
Investments in subsidiaries		-	-	10,721	11,631
Advances to subsidiaries		-	-	6,098	3,824
<b>Total non-current assets</b>		<b>217,663</b>	<b>197,994</b>	<b>221,065</b>	<b>205,250</b>
Cash and cash equivalents	20	15,502	19,727	13,819	18,370
Inventories	18	10,759	9,005	9,761	8,602
Biological assets	15	2,549	2,481	846	828
Investments & derivatives	16	-	9,513	-	9,513
Trade receivables	19	34,155	34,448	37,462	38,527
Prepayments		3,168	2,327	3,141	2,321
<b>Total current assets</b>		<b>66,133</b>	<b>77,500</b>	<b>65,029</b>	<b>78,161</b>
<b>Total assets</b>		<b>283,796</b>	<b>275,494</b>	<b>286,094</b>	<b>283,411</b>
<b>Equity</b>					
Share capital		58,464	58,464	58,464	58,464
Reserves		27,633	25,024	25,109	22,607
Retained earnings		127,272	125,441	132,338	131,624
<b>Total equity</b>		<b>213,369</b>	<b>208,929</b>	<b>215,912</b>	<b>212,696</b>
<b>Liabilities</b>					
Provisions	24	5,137	4,505	5,060	4,433
Deferred tax liability	17	30,808	30,950	30,326	30,520
<b>Total non-current liabilities</b>		<b>35,945</b>	<b>35,455</b>	<b>35,386</b>	<b>34,953</b>
Co-operative Control Shares	22	6,292	5,441	6,292	5,441
Derivatives		38	-	38	-
Trade & other payables	25	23,847	21,324	24,190	22,074
Advances from subsidiaries		-	-	-	3,874
Provision for tax		2,239	2,342	2,243	2,400
Provisions	24	2,066	2,003	2,033	1,973
<b>Total current liabilities</b>		<b>34,482</b>	<b>31,110</b>	<b>34,796</b>	<b>35,762</b>
<b>Total liabilities</b>		<b>70,427</b>	<b>66,565</b>	<b>70,182</b>	<b>70,715</b>
<b>Total equity and liabilities</b>		<b>283,796</b>	<b>275,494</b>	<b>286,094</b>	<b>283,411</b>



Director

Date: 23 July 2014



Director

Date: 23 July 2014

**Statement of Cash Flows**  
**For the year ended 31 May 2014**

*In thousands of New Zealand dollars*

	Note	Consolidated		Parent	
		2014	2013	2014	2013
<b>Net cash from/(used in) operating activities</b>					
Cash provided from:					
Receipts from customers		209,856	189,740	202,971	183,786
Sale of biological assets		1,153	1,066	59	95
Finance income received		1,866	1,785	1,985	1,778
		<b>212,875</b>	<b>192,591</b>	<b>205,015</b>	<b>185,659</b>
Cash applied to:					
Payments to suppliers and employees		(168,278)	(159,471)	(160,305)	(152,763)
Acquisition of biological assets		-	(25)	-	(19)
Finance expense paid		(216)	(347)	(216)	(420)
Income tax paid		(7,342)	(6,980)	(7,301)	(6,934)
		<b>(175,836)</b>	<b>(166,823)</b>	<b>(167,821)</b>	<b>(160,136)</b>
	30	<b>37,040</b>	<b>25,768</b>	<b>37,194</b>	<b>25,523</b>
<b>Net cash from/(used in) investing activities</b>					
Cash provided from:					
Sale of term investments		4,000	12,000	4,000	12,000
Repayment of term loan		5,000	5,000	5,000	5,000
Sale of Property, Plant and Equipment		219	538	165	482
Repayment of advances to subsidiaries		-	-	667	911
		<b>9,219</b>	<b>17,538</b>	<b>9,832</b>	<b>18,393</b>
Cash applied to:					
Acquisition of term investments		-	(4,000)	-	(4,000)
Acquisition of shares		(6)	(55)	-	(21)
Acquisition of intangibles		(22,817)	(13,189)	(17,757)	(13,189)
Acquisition of Property, Plant and Equipment		(11,768)	(10,776)	(11,103)	(10,393)
Advances to subsidiaries		-	-	(2,948)	(1,034)
		<b>(34,591)</b>	<b>(28,020)</b>	<b>(31,809)</b>	<b>(28,637)</b>
		<b>(25,372)</b>	<b>(10,482)</b>	<b>(21,976)</b>	<b>(10,244)</b>
<b>Net cash from/(used in) financing activities</b>					
Cash provided from:					
Co-operative Shares paid up		1,374	905	1,374	905
		<b>1,374</b>	<b>905</b>	<b>1,374</b>	<b>905</b>
Cash applied to:					
Repayment of advance from subsidiary		-	-	(3,874)	-
Repurchase of Co-operative Shares		(522)	(581)	(522)	(581)
Dividends paid to Shareholders of the Group		(16,215)	(11,564)	(16,215)	(11,564)
Interest paid on Co-operative Shares		(531)	(460)	(531)	(460)
		<b>(17,268)</b>	<b>(12,605)</b>	<b>(21,143)</b>	<b>(12,605)</b>
		<b>(15,895)</b>	<b>(11,700)</b>	<b>(19,769)</b>	<b>(11,700)</b>
<b>Net increase/(decrease) in cash balances</b>					
		<b>(4,227)</b>	<b>3,586</b>	<b>(4,551)</b>	<b>3,579</b>
Cash balances at beginning of year					
		19,727	16,242	18,370	14,791
Effect of exchange rate changes on cash held					
		2	(101)	-	-
<b>Closing cash balances</b>					
		<b>15,502</b>	<b>19,727</b>	<b>13,819</b>	<b>18,370</b>

**Consolidated Statement of Changes in Equity  
For the year ended 31 May 2014**

**Consolidated**

**Attributable to equity holders of the Parent**

*In thousands of New Zealand dollars*

	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Total Equity
Balance at 1 June 2012	58,464	11	104	24,280	113,346	196,205
<b>Total comprehensive income for the year</b>						
Profit					23,658	24,387
<b>Other comprehensive income</b>						
Effective portion of changes in fair value of cash flow hedges	-	9	-	-	-	9
Net change in fair value of available for sale financial assets	-	-	(76)	-	-	(76)
Revaluation of property plant and equipment	-	-	-	696	-	696
Total other comprehensive income	-	9	(76)	696	-	629
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>9</b>	<b>(76)</b>	<b>696</b>	<b>23,658</b>	<b>24,287</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Dividends to equity holders	-	-	-	-	(11,564)	(11,564)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,564)</b>	<b>(11,564)</b>
<b>Balance at 31 May 2013</b>	<b>58,464</b>	<b>20</b>	<b>28</b>	<b>24,976</b>	<b>125,441</b>	<b>208,929</b>
Balance at 1 June 2013	58,464	20	28	24,976	125,441	208,929
<b>Total comprehensive income for the year</b>						
Profit					18,046	18,046
<b>Other comprehensive income</b>						
Effective portion of changes in fair value of cash flow hedges	-	(23)	-	-	-	(23)
Net change in fair value of available for sale financial assets	-	-	247	-	-	247
Revaluation of property plant and equipment	-	-	-	2,385	-	2,385
Total other comprehensive income	-	(23)	247	2,385	-	2,609
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(23)</b>	<b>247</b>	<b>2,385</b>	<b>18,046</b>	<b>20,655</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Dividends to equity holders	-	-	-	-	(16,215)	(16,215)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16,215)</b>	<b>(16,215)</b>
<b>Balance at 31 May 2014</b>	<b>58,464</b>	<b>(3)</b>	<b>275</b>	<b>27,361</b>	<b>127,272</b>	<b>213,369</b>

**Consolidated Statement of Changes in Equity (continued)**  
**For the year ended 31 May 2014**

**Parent**

*In thousands of New Zealand dollars*

	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Total Equity
Balance at 1 June 2012	58,464	11	-	22,144	119,635	200,254
<b>Total comprehensive income for the year</b>						
Profit					23,553	23,553
<b>Other comprehensive income</b>						
Effective portion of changes in fair value of cash flow hedges	-	9	-	-	-	9
Revaluation of property plant and equipment	-	-	-	443	-	443
Total other comprehensive income	-	9	-	443	-	452
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>443</b>	<b>23,553</b>	<b>24,005</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Dividends to equity holders	-	-	-	-	(11,564)	(11,564)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,564)</b>	<b>(11,564)</b>
<b>Balance at 31 May 2013</b>	<b>58,464</b>	<b>20</b>	<b>-</b>	<b>22,587</b>	<b>131,624</b>	<b>212,696</b>
Balance at 1 June 2013	58,464	20	-	22,587	131,624	212,696
<b>Total comprehensive income for the year</b>						
Profit					16,930	16,930
<b>Other comprehensive income</b>						
Effective portion of changes in fair value of cash flow hedges	-	(23)	-	-	-	(23)
Net change in fair value of available for sale financial assets	-	-	220	-	-	220
Revaluation of property plant and equipment	-	-	-	2,304	-	2,304
Total other comprehensive income	-	(23)	220	2,304	-	2,502
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(23)</b>	<b>220</b>	<b>2,304</b>	<b>16,930</b>	<b>19,432</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Dividends to equity holders	-	-	-	-	(16,215)	(16,215)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16,215)</b>	<b>(16,215)</b>
<b>Balance at 31 May 2014</b>	<b>58,464</b>	<b>(3)</b>	<b>220</b>	<b>24,891</b>	<b>132,338</b>	<b>215,912</b>

**Notes to the Financial Statements**  
**For the year ended 31 May 2014**

**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 issuer for the purpose of the Financial Reporting Act 1993 and its financial statements comply with that Act.

These financial statements of LIC, as at and for the year ended 31 May 2014, 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 profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ('IFRS').

The financial statements were approved by the Board of Directors on 23 July 2014.

*(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.

The methods used to measure fair values are discussed further in note 4.

*(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 13 – Fixed assets – revaluation of land and buildings
- Note 14 – Intangible assets - measurement of the recoverable amounts of intangibles
- Note 15 – Biological assets
- Note 24 – Provisions
- Note 33 – 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.



## Notes to the Financial Statements

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

#### (a) *Basis of consolidation*

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The cost of acquisition is measured at the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the cost of acquisition, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in profit or loss.

##### (ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation, or has made payments, on behalf of the investee.

##### (iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

##### (iv) 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. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

#### (b) *Foreign currency*

##### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation, using the exchange rates at the reporting date, of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when recognised in equity as qualifying cash flow or qualifying net investment hedges.

##### (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, 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

### 3. Significant accounting policies (continued)

Where the Group's presentation currency differs from the functional currency of an entity, the assets and liabilities of the operation are translated from the functional currency into the presentation currency at exchange rates at the reporting date. The income and expenses of these entities are translated at rates approximating the exchange rates at the dates of the transactions. Exchange differences arising on the translation of the financial statements of these entities and of borrowings and other currency instruments designated as hedges of such instruments are recognised directly in the foreign currency translation reserve ("FCTR"). When an entity is partially disposed of, or sold, the exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

#### (c) *Financial instruments*

##### (i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity securities accounted for as available-for-sale financial assets, trade receivables, cash and cash equivalents, short-term borrowings, co-operative control shares and trade payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire, or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits, and are classified as a loan and receivable financial instrument. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

##### *Available-for-sale financial assets*

The Group's investments in equity securities (excluding investments in subsidiaries and associates) are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

The fair value of equity investments classified as available-for-sale is their quoted bid price at reporting date or fair value as determined by a valuation methodology for unquoted equity investments.

##### *Instruments at fair value through profit or loss*

An instrument is classified as fair value through profit or loss if it is held for trading, or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments, and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

##### *Trade receivables*

Trade receivables are classified as a loan and receivables financial instrument, and are stated at amortised cost, using the effective interest method, less any impairment losses.

##### *Short-term borrowings*

Short-term borrowings are classified as an other liabilities financial instrument and are stated at amortised cost using the effective interest method.

##### *Trade payables*

Trade payables are classified as an other liabilities financial instrument, and are stated at cost.

##### *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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

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

#### (ii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

#### (d) Fixed assets

##### (i) Recognition and measurement

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. Land and buildings are revalued to market value at least every 3 years, or when a substantial movement in values has occurred.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revalued assets are credited to the revaluation reserve in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset, are first recognised against the revaluation reserve attributable to the asset, all other decreases are charged to profit or loss.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being disposed or derecognised is transferred to retained earnings.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

##### (ii) Subsequent costs

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

##### (iii) Depreciation

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

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

#### (e) Intangible assets

##### (i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of the investment over the fair value of the net identifiable assets acquired. Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### (ii) Research and development

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 a plan or design for the production of new or substantially improved products and processes. 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. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins at the time that commercial production, or use of the process, commences and the amortisation period is up to five years on a straight line basis. The amortisation period and amortisation method is reviewed at each reporting date. Development assets are tested for impairment on an annual basis until available for use.

#### (iii) Livestock Improvement Database

The Parent 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 New Zealand Dairy Core Database, covering 46 identified fields of animal data, were defined. While the Livestock Improvement Database includes these defined fields, no specific value is attributed to the New Zealand Dairy Core Database.

The cost of the Livestock Improvement Database was capitalised. Based on analysis of various economic factors including the volume and complexity of data, models, statistical compilation and integration, and the ability to derive revenue from several products the Parent has determined that the Livestock Improvement Database has an indefinite useful life. The Livestock Improvement Database is tested annually for impairment and carried at cost less accumulated impairment losses.

#### (iv) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, being up to seven years. The amortisation period and amortisation method is reviewed at each reporting date.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of directly attributable costs.

Computer software development costs recognised as assets are amortised over their estimated useful lives, being up to five years. The amortisation period, and amortisation method, is reviewed at each reporting date.

#### (v) Intellectual Property

Acquired intellectual property, whether through business combinations or individual asset purchases, is capitalised on the basis of the costs incurred to acquire and bring to use 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.

#### (vi) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

#### (f) 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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

Fair value movements on biological assets (other livestock) that are traded as part of the normal operating activities of the Group are included in 'other expenses'.

(g) *Leased assets*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's balance sheet.

(h) *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.

(i) *Impairment*

The carrying amounts of the Group's assets, other than biological assets, inventories, goodwill and indefinite life intangibles are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

(i) *Impairment of loans and receivables, and equity instruments*

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

Loans and receivables that are not individually significant and loans and receivables for which, based on the individual assessment, it was determined that no objective evidence of impairment existed, are collectively assessed for impairment in groups with similar risk characteristics.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

The recoverable amount of the Group's loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with short duration are not discounted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

(ii) *Impairment of fixed assets and intangibles*

The carrying amounts of the Group's non-monetary assets, (other than biological assets, inventories, goodwill and indefinite life intangibles; see 3.(f), 3.(h), 3.(e)(i) and 3.(e)(iii) for treatment), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (j) *Employee benefits*

##### (i) Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the rate at reporting date, which reflects the government bonds that have a maturity date approximating the terms of the Group's obligation along with the Group's risk premium. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

##### (ii) Short-term benefits

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

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.

##### (iii) Defined contribution plans

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

#### (k) *Provisions*

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

##### (i) ACC Partnership Programme

The Parent belongs to the ACC Partnership Programme whereby the Parent accepts the management and financial responsibility of work related illnesses and accidents of employees. Under the Programme the Parent is liable for all its claims costs for a period of four years up to a specified maximum. At the end of the four-year period, the Parent pays a premium to ACC for the value of residual claims, and the liability for ongoing claims from that point passes to ACC.

The liability for the ACC Partnership Programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields, at the reporting date, on government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### (l) *Revenue*

##### (i) Goods sold

Revenue from the sale of goods is 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.

##### (ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction from reference to milestones at the reporting date.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

(m) *Government Grants*

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.

(n) *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(o) *Finance income and expenses*

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. 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, unwinding of discount on provisions, dividends on Co-operative Control shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available-for-sale financial assets, and losses on hedging instruments that are recognised in profit or loss. 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.

(p) *Income tax*

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 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, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future and land that is recorded at fair value. 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) *Share Capital*

*Investment Shares*

Investment Shares are classified as equity because such instruments are redeemable only at the Company'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.

When share capital, recognised as equity, is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(r) *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.

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

(s) *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.

(t) *Standards, amendments and interpretations issued that are not yet effective and have not been early adopted*

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

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32), (effective January 2014)
- Recoverable amount disclosures for non financial assets (amendments to IAS 36), (effective January 2014)
- IFRS 9 Financial Instruments (effective January 2015)

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

(u) *Adoption of new standards*

As of 1 June 2013, the Group has adopted NZ IFRS 13 Fair Value Measurement, and NZ IFRS 10 Consolidated Financial Statements. This has had no impact on the method for determining the fair value of assets and liabilities recognised at fair value and for consolidating the financial statements.

### 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) *Land and buildings*

The fair value of land and buildings is based on market values. 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. Land and Buildings would fall under level 2 in the fair value hierarchy.

(b) *Biological assets*

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

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.

(c) *Investments in equity securities*

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. 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 EBIT earnings multiple methodology, and recent arms length transactions. The earnings multiple is determined with reference to known entities in a like sector.

(d) *Derivatives*

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).



## Notes to the financial statements

### 5. Operating Segments

#### Information about reportable segments

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

The operating segments of LIC 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 that the CODM reviews regularly in order to allocate resources, and to assess the performance of the LIC Group.

LIC 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

- Genetics. Includes the provision of bovine and cervine genetic breeding material and related services predominately to dairy and deer 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.

Other operating segments includes international operations, corporate services, research & development, diagnostic services, animal evaluation, human resources and leadership and governance support services for the Group. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2014 or 2013.

Information regarding the operations of each reportable segment is included below. Performance is measured based on segment profit before interest, finance expenses and income tax. Segment profit is used to measure performance as 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. Inter-segment pricing is determined on an arm's length basis.



## Notes to the Financial Statements

### 6 Revenue

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2014	2013	2014	2013
Sales of goods	133,268	121,819	124,737	114,913
Services	74,155	71,805	73,950	71,626
<b>Total revenues</b>	<b>207,423</b>	<b>193,624</b>	<b>198,687</b>	<b>186,539</b>

### 7 Other income

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2014	2013	2014	2013
Government Grants	4,111	3,692	4,085	3,692
Other Income	8	2,152	-	2,141
	<b>4,119</b>	<b>5,844</b>	<b>4,085</b>	<b>5,833</b>

### 8 Impairment

*In thousands of New Zealand dollars*

	Note	Consolidated		Parent	
		2014	2013	2014	2013
Impairment of goodwill	14	109	109	-	-
Decrease in valuation of land & buildings		67	225	67	225
Reversal of previously recognised decrease in valuation of land & buildings		(795)	(15)	(795)	(15)
Impairment of investment in subsidiaries		-	6	909	109
		<b>(619)</b>	<b>325</b>	<b>181</b>	<b>320</b>

During 2014 the goodwill held by the Group (investment in Parent), in relation to FarmKeeper, was impaired by \$0.109 million (2013: \$0.109 million).

Revaluation of land & buildings saw a decrease in the value of \$0.067 million (2013: \$0.225 million), and an increase of \$0.795 million (2013: \$0.015 million). The revaluation increase has been recognised in the Income Statement to reverse previously recorded downward revaluations.

## Notes to the financial statements

### 9 Other Expenses

The following items of expenditure are included in other expenses:

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Donations	18	25	18	25
Research and Development	14,963	12,848	14,834	12,848
<b>Auditors' remuneration comprises:</b>				
KPMG – audit services	138	144	138	144
KPMG – non audit-related services	46	7	46	7
Other Auditors	55	62	-	-

Non audit-related services includes taxation advisory services (\$11k) and a limited review for due diligence purposes (\$35k).

Research and Development expenses above is the total expenditure incurred across all departments and represents 7.21% of Revenue (2013: 6.64%).

Included in staff expenses and other expenses, are costs relating to the organisational review and restructuring of \$2.302 million.

### 10 Staff expenses

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Wages and salaries	81,633	75,714	78,111	72,842
Contributions to employee superannuation	3,675	3,066	3,564	3,038
Other employee expenses	4,290	4,218	4,057	4,067
	<b>89,597</b>	<b>82,998</b>	<b>85,732</b>	<b>79,947</b>

### 11 Finance income and expense

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Interest income on loans and receivables	1,295	2,004	1,439	2,118
Net foreign exchange gain	31	-	(4)	-
Dividend income on available-for-sale financial assets	28	141	28	61
<b>Finance income</b>	<b>1,354</b>	<b>2,144</b>	<b>1,464</b>	<b>2,179</b>
Interest expense	(215)	(149)	(216)	(149)
Dividend paid on Co-operative Control Shares	(531)	(459)	(531)	(459)
Net foreign exchange loss	-	(354)	-	(265)
<b>Finance expense</b>	<b>(746)</b>	<b>(962)</b>	<b>(747)</b>	<b>(873)</b>
<b>Net finance income</b>	<b>609</b>	<b>1,182</b>	<b>717</b>	<b>1,306</b>

## Notes to the financial statements

### 12 Income tax expense

*In thousands of New Zealand dollars*

#### Current tax expense

Current period

Adjustments for prior periods

#### Deferred tax expense

Origination and reversal of temporary differences

Adjustments for prior periods

Total income tax expense

	Consolidated		Parent	
	2014	2013	2014	2013
Current period	7,240	7,604	7,145	7,600
Adjustments for prior periods	-	74	-	75
	7,240	7,678	7,145	7,675
Origination and reversal of temporary differences	(157)	1,433	(171)	1,413
Adjustments for prior periods	10	(505)	2	(504)
	(147)	928	(169)	909
<b>Total income tax expense</b>	<b>7,093</b>	<b>8,606</b>	<b>6,976</b>	<b>8,584</b>

#### Reconciliation of tax expense

*In thousands of New Zealand dollars*

Profit for the period

Total income tax expense

Profit excluding income tax

Income tax using the Company's domestic tax rate: 28% (2013: 28%)

Effect of tax rates in foreign jurisdictions

Non-deductible expenses

Under/(over) provided in prior periods

Total income tax expense

	Consolidated		Parent	
	2014	2013	2014	2013
Profit for the period	18,046	23,658	16,930	23,553
Total income tax expense	7,093	8,606	6,976	8,584
Profit excluding income tax	25,139	32,264	23,906	32,137
Income tax using the Company's domestic tax rate: 28% (2013: 28%)	7,039	9,034	6,694	8,998
Effect of tax rates in foreign jurisdictions	(47)	(46)	-	-
Non-deductible expenses	78	(116)	279	(149)
Under/(over) provided in prior periods	23	(266)	3	(265)
<b>Total income tax expense</b>	<b>7,093</b>	<b>8,606</b>	<b>6,976</b>	<b>8,584</b>

#### Income tax recognised directly in other comprehensive income

*In thousands of New Zealand dollars*

Revaluation of buildings

Total income tax recognised directly in equity

	Consolidated		Parent	
	2014	2013	2014	2013
Revaluation of buildings	5	164	(25)	105
<b>Total income tax recognised directly in equity</b>	<b>5</b>	<b>164</b>	<b>(25)</b>	<b>105</b>

#### Imputation credits

*In thousands of New Zealand dollars*

The imputation credits are available to shareholders of the Company

	Consolidated		Parent	
	2014	2013	2014	2013
<b>The imputation credits are available to shareholders of the Company</b>	<b>14,753</b>	<b>13,964</b>	<b>13,876</b>	<b>13,088</b>

## Notes to the financial statements

### 13 Fixed assets

#### Consolidated

*In thousands of New Zealand dollars*

	Land	Buildings	Plant and equipment	Vehicles	Furniture and Fittings	Computers	Total
<b>Cost or fair value</b>							
Balance at 1 June 2012	29,372	21,672	34,815	14,171	2,674	11,487	114,190
Additions	-	1,776	3,522	2,707	660	2,133	10,798
Increases/(decreases) resulting from revaluations	274	(551)	-	-	-	-	(277)
Disposals	-	-	(191)	(1,925)	(15)	(21)	(2,152)
Forex Impact	-	-	(12)	(51)	(4)	(6)	(73)
<b>Balance at 31 May 2013</b>	<b>29,646</b>	<b>22,897</b>	<b>38,135</b>	<b>14,902</b>	<b>3,316</b>	<b>13,592</b>	<b>122,487</b>
Balance at 1 June 2013	29,646	22,897	38,135	14,902	3,316	13,592	122,487
Additions	-	1,953	3,834	3,388	215	2,269	11,660
Additions through Business Combination	-	3	24	5	6	20	56
Increases/(decreases) resulting from revaluations	3,166	(349)	-	-	-	-	2,817
Disposals	-	(173)	(390)	(1,197)	(243)	(3,499)	(5,501)
Forex impact	-	-	(1)	(3)	1	3	(1)
<b>Balance at 31 May 2014</b>	<b>32,812</b>	<b>24,332</b>	<b>41,602</b>	<b>17,095</b>	<b>3,294</b>	<b>12,384</b>	<b>131,518</b>
<b>Depreciation and impairment losses</b>							
Balance at 1 June 2012	-	(469)	(26,214)	(8,726)	(2,001)	(9,707)	(47,117)
Depreciation for the year	-	(1,076)	(3,030)	(2,067)	(176)	(952)	(7,301)
Adjustment due to revaluations	-	922	-	-	-	-	922
Disposals	-	-	190	1,820	1	19	2,030
Forex impact	-	-	8	37	2	3	51
<b>Balance at 31 May 2013</b>	<b>-</b>	<b>(623)</b>	<b>(29,046)</b>	<b>(8,935)</b>	<b>(2,175)</b>	<b>(10,636)</b>	<b>(51,414)</b>
Balance at 1 June 2013	-	(623)	(29,046)	(8,935)	(2,175)	(10,636)	(51,414)
Depreciation for the year	-	(1,252)	(3,415)	(2,270)	(318)	(1,326)	(8,581)
Adjustment due to revaluations	-	301	-	-	-	-	301
Disposals	-	22	387	1,111	241	3,456	5,217
Forex Impact	-	-	(1)	(6)	(1)	(2)	(9)
<b>Balance at 31 May 2014</b>	<b>-</b>	<b>(1,553)</b>	<b>(32,075)</b>	<b>(10,100)</b>	<b>(2,252)</b>	<b>(8,507)</b>	<b>(54,488)</b>
<b>Carrying amounts</b>							
At 1 June 2012	29,372	21,203	8,601	5,445	673	1,780	67,073
<b>At 31 May 2013</b>	<b>29,646</b>	<b>22,274</b>	<b>9,089</b>	<b>5,967</b>	<b>1,141</b>	<b>2,956</b>	<b>71,073</b>
At 1 June 2013	29,646	22,274	9,089	5,967	1,141	2,956	71,073
<b>At 31 May 2014</b>	<b>32,812</b>	<b>22,779</b>	<b>9,526</b>	<b>6,994</b>	<b>1,043</b>	<b>3,877</b>	<b>77,030</b>

Under a cost model, each asset would be recorded as:

#### Consolidated

*In thousands of New Zealand dollars*

Land	10,667
Buildings	18,069

## Notes to the financial statements

### 13 Fixed assets (continued)

#### Parent

*In thousands of New Zealand dollars*

	Land	Buildings	Plant and equipment	Vehicles	Furniture and Fittings	Computers	Total
<b>Cost or deemed cost</b>							
Balance at 1 June 2012	24,372	20,205	34,228	12,960	2,592	11,383	105,740
Additions	-	1,744	3,455	2,408	663	2,134	10,402
Increases/(decreases) resulting from revaluations	174	(392)	-	-	-	-	(219)
Disposals	-	-	(170)	(1,702)	(13)	(21)	(1,907)
<b>Balance at 31 May 2013</b>	<b>24,546</b>	<b>21,556</b>	<b>37,512</b>	<b>13,666</b>	<b>3,242</b>	<b>13,495</b>	<b>114,017</b>
Balance at 1 June 2013	24,546	21,556	37,512	13,666	3,242	13,495	114,017
Additions	-	1,916	3,692	2,992	203	2,243	11,045
Increases/(decreases) resulting from revaluations	3,166	(347)	-	-	-	-	2,819
Disposals	-	(173)	(390)	(946)	(243)	(3,482)	(5,234)
<b>Balance at 31 May 2014</b>	<b>27,712</b>	<b>22,952</b>	<b>40,814</b>	<b>15,712</b>	<b>3,202</b>	<b>12,255</b>	<b>122,646</b>
<b>Depreciation and impairment losses</b>							
Balance at 1 June 2012	-	(258)	(25,735)	(7,979)	(1,943)	(9,621)	(45,537)
Depreciation for the year	-	(912)	(2,979)	(1,895)	(173)	(944)	(6,902)
Adjustment due to revaluations	-	557	-	-	-	-	557
Disposals	-	-	170	1,614	1	19	1,804
<b>Balance at 31 May 2013</b>	<b>-</b>	<b>(614)</b>	<b>(28,544)</b>	<b>(8,259)</b>	<b>(2,115)</b>	<b>(10,546)</b>	<b>(50,077)</b>
Balance at 1 June 2013	-	(614)	(28,544)	(8,259)	(2,115)	(10,546)	(50,077)
Depreciation for the year	-	(1,073)	(3,360)	(2,048)	(313)	(1,314)	(8,109)
Adjustment due to revaluations	-	188	-	-	-	-	188
Disposals	-	22	387	883	241	3,441	4,973
<b>Balance at 31 May 2014</b>	<b>-</b>	<b>(1,477)</b>	<b>(31,517)</b>	<b>(9,424)</b>	<b>(2,187)</b>	<b>(8,419)</b>	<b>(53,024)</b>
<b>Carrying amounts</b>							
At 1 June 2012	24,372	19,947	8,492	4,981	649	1,761	60,203
<b>At 31 May 2013</b>	<b>24,546</b>	<b>20,943</b>	<b>8,969</b>	<b>5,406</b>	<b>1,127</b>	<b>2,950</b>	<b>63,940</b>
At 1 June 2013	24,546	20,943	8,969	5,406	1,127	2,950	63,940
<b>At 31 May 2014</b>	<b>27,712</b>	<b>21,475</b>	<b>9,297</b>	<b>6,288</b>	<b>1,015</b>	<b>3,836</b>	<b>69,622</b>

Valuations of land and buildings were performed to determine the carrying value of these assets at 30 April 2014. These were performed by independent registered valuers, John Dunckley from Crighton Anderson Property & Infrastructure Limited, Ron Lockwood of Fergusson Lockwood & Associates and Jon G. Newson, and are based on methods/assumptions referred to in Note 4. The total fair value of land and buildings, as valued by independent valuers is \$53.629 million.

Under a cost model, each asset would be recorded as:

#### Parent

*In thousands of New Zealand dollars*

Land	7,326
Buildings	16,986

## Notes to the financial statements

### 14 Intangible assets

<b>Consolidated</b> <i>In thousands of New Zealand dollars</i>	<b>Intellectual Property</b>	<b>Goodwill</b>	<b>Database</b>	<b>Software</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 June 2012		4,052	10,500	46,758	61,310
Acquisitions – internally developed		-	-	9,098	9,098
Acquisitions – separately acquired		-	-	4,091	4,091
<b>Balance at 31 May 2013</b>	<b>-</b>	<b>4,052</b>	<b>10,500</b>	<b>59,947</b>	<b>74,499</b>
Balance at 1 June 2013	-	4,052	10,500	59,947	74,499
Acquisitions – internally developed		-	-	15,729	15,729
Acquisitions – separately acquired		-	-	2,075	2,075
Acquisitions – business combinations	900	4,144	-	12	5,055
Disposals		-	-	(1,540)	(1,540)
<b>Balance at 31 May 2014</b>	<b>900</b>	<b>8,196</b>	<b>10,500</b>	<b>76,223</b>	<b>95,819</b>
<b>Amortisation and impairment losses</b>					
Balance at 1 June 2012		(3,371)	-	(28,787)	(32,159)
Amortisation for the year		-	-	(6,403)	(6,403)
Impairment		(109)	-	-	(109)
<b>Balance at 31 May 2013</b>	<b>-</b>	<b>(3,480)</b>	<b>-</b>	<b>(35,190)</b>	<b>(38,671)</b>
Balance at 1 June 2013	-	(3,480)	-	(35,190)	(38,671)
Amortisation for the year	(38)	-	-	(8,423)	(8,461)
Impairment	-	(109)	-	-	(109)
Disposals	-	-	-	1,498	1,498
<b>Balance at 31 May 2014</b>	<b>(38)</b>	<b>(3,590)</b>	<b>-</b>	<b>(42,115)</b>	<b>(45,743)</b>
<b>Carrying amounts</b>					
At 1 June 2012	-	681	10,500	17,971	29,152
<b>At 31 May 2013</b>	<b>-</b>	<b>572</b>	<b>10,500</b>	<b>24,758</b>	<b>35,829</b>
At 1 June 2013	-	572	10,500	24,758	35,829
<b>At 31 May 2014</b>	<b>863</b>	<b>4,606</b>	<b>10,500</b>	<b>34,108</b>	<b>50,076</b>



## Notes to the financial statements

### 14 Intangible assets (continued)

Parent	Intellectual Property	Database	Software	Total
<i>In thousands of New Zealand dollars</i>				
<b>Cost</b>				
Balance at 1 June 2012	168	10,500	46,754	57,422
Acquisitions – internally developed	-	-	9,097	9,097
Acquisitions – separately	-	-	4,091	4,091
<b>Balance at 31 May 2013</b>	<b>168</b>	<b>10,500</b>	<b>59,942</b>	<b>70,611</b>
Balance at 1 June 2013	168	10,500	59,942	70,611
Acquisitions – internally developed	-	-	15,729	15,729
Acquisitions – separately acquired	-	-	2,071	2,071
Disposals	-	-	(1,540)	(1,540)
<b>Balance at 31 May 2014</b>	<b>168</b>	<b>10,500</b>	<b>76,202</b>	<b>86,871</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 June 2012	(168)	-	(28,787)	(28,955)
Amortisation for the year	-	-	(6,403)	(6,403)
<b>Balance at 31 May 2013</b>	<b>(168)</b>	<b>-</b>	<b>(35,189)</b>	<b>(35,357)</b>
Balance at 1 June 2013	(168)	-	(35,189)	(35,357)
Amortisation for the year	-	-	(8,421)	(8,421)
Disposals	-	-	1,498	1,498
<b>Balance at 31 May 2014</b>	<b>(168)</b>	<b>-</b>	<b>(42,113)</b>	<b>(42,281)</b>
<b>Carrying amounts</b>				
At 1 June 2012	-	10,500	17,968	28,468
<b>At 31 May 2013</b>	<b>-</b>	<b>10,500</b>	<b>24,753</b>	<b>35,254</b>
At 1 June 2013	-	10,500	24,753	35,254
<b>At 31 May 2014</b>	<b>-</b>	<b>10,500</b>	<b>34,090</b>	<b>44,590</b>

At the reporting date there was \$7.013 million of capital work in progress for Parent and Group which is currently not being amortised (2013: \$7.833 million)

#### *Impairment testing for cash-generating units containing goodwill and indefinite life intangible assets*

For the purpose of impairment testing, goodwill and indefinite life intangible assets are allocated to the Group's operating divisions, which represent the lowest level within the Group at which the goodwill and indefinite life intangible assets are monitored for internal management purposes.

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

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
New Zealand Genetics (Ireland Goodwill)	353	353
New Zealand Farm Software (Farmkeeper Goodwill)	109	219
	<b>462</b>	<b>572</b>

As at the reporting date the tentative Goodwill acquired in the acquisition of the assets and business of Dairy Automation Limited amounted to \$4.144 million. The tentative Goodwill has not been allocated to the Group's operating divisions due to the required information not yet being available. The Group intends to impairment test the Goodwill based on its value in use.

## Notes to the financial statements

### 14 Intangible assets (continued)

The aggregate carrying amounts of indefinite life intangible assets allocated to each unit are as follows:

<i>In thousands of New Zealand dollars</i>	Consolidated	
	2014	2013
New Zealand Farm Software	10,500	10,500
	<b>10,500</b>	<b>10,500</b>

The New Zealand Genetics unit's impairment test was based on its value in use.

The New Zealand Farm Software unit's impairment test was based on its value in use.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected for five years based on actual operating results and the 5-year business plan

The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data).

The above estimates are sensitive in the following areas:

- Discount rate (8.5 percent post tax; 2013: 8.7 percent post tax); and
- Future projected cashflows (incorporates inflation of 3 percent; 2013: 3 percent)

A one percent shift in either of the above would cause no material impact on the impairment tests on the cash generating units.

### 15 Biological assets

#### Consolidated

*In thousands of New Zealand dollars*

	Elite breeding bulls	Other livestock	Total
Balance at 1 June 2012	85,895	2,426	88,320
Decrease due to sales	-	(1,066)	(1,066)
Change in fair value less estimated point-of-sale costs - Elite	3,784	-	3,784
Change in fair value less estimated point-of-sale costs - Other	-	1,122	1,122
<b>Balance at 31 May 2013</b>	<b>89,679</b>	<b>2,481</b>	<b>92,160</b>
Non-current	89,679	-	89,679
Current	-	2,481	2,481
<b>Balance at 31 May 2013</b>	<b>89,679</b>	<b>2,481</b>	<b>92,160</b>
Balance at 1 June 2013	89,679	2,481	92,160
Decrease due to sales	-	(1,153)	(1,153)
Change in fair value less estimated point-of-sale costs - Elite	(787)	-	(787)
Change in fair value less estimated point-of-sale costs - Other	-	1,221	1,221
<b>Balance at 31 May 2014</b>	<b>88,892</b>	<b>2,549</b>	<b>91,441</b>
Non-current	88,892	-	88,892
Current	-	2,549	2,549
<b>Balance at 31 May 2014</b>	<b>88,892</b>	<b>2,549</b>	<b>91,441</b>

## Notes to the Financial Statements

### 15 Biological assets (continued)

#### Parent

*In thousands of New Zealand dollars*

	Elite breeding bulls	Other livestock	Total
Balance at 1 June 2012	85,895	864	86,759
Decrease due to sales	-	(95)	(95)
Change in fair value less estimated point-of-sale costs - elite	3,784	-	3,784
Change in fair value less estimated point-of-sale costs - other	-	58	58
<b>Balance at 31 May 2013</b>	<b>89,679</b>	<b>828</b>	<b>90,507</b>
Non-current	89,679	-	89,679
Current	-	828	828
<b>Balance at 31 May 2013</b>	<b>89,679</b>	<b>828</b>	<b>90,507</b>
Balance at 1 June 2013	89,679	828	90,507
Decrease due to sales	-	(59)	(59)
Change in fair value less estimated point-of-sale costs - elite	(787)	-	(787)
Change in fair value less estimated point-of-sale costs - other	-	77	77
<b>Balance at 31 May 2014</b>	<b>88,892</b>	<b>846</b>	<b>89,738</b>
Non-current	88,892	-	88,892
Current	-	846	846
<b>Balance at 31 May 2014</b>	<b>88,892</b>	<b>846</b>	<b>89,738</b>

At 31 May 2014 Elite breeding bulls comprised 860 bulls (2013: 866 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 average post tax rate of 8.21 percent (2013: 8.7 percent post tax)
Inflation rate net effect	3 percent (2013: 3 percent )
Tax rate	28 percent (2013: 28 percent)

The impact of a one percent shift in tax, WACC and the rate of inflation in aggregate would not have a material impact on the fair value of the elite breeding bulls.

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 that the systems in place are adequate to manage those risks.

## Notes to the Financial Statements

### 15 Biological assets (continued)

#### *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 that 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.

#### *Climate and other risks*

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

### 16 Investments & derivatives

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2014	2013	2014	2013
<b>Current investments</b>				
Term deposits	-	4,033	-	4,033
Loan	-	5,493	-	5,493
Derivatives	-	(13)	-	(13)
	-	<b>9,513</b>	-	<b>9,513</b>
<b>Non-current investments</b>				
Available-for-sale financial assets	1,665	1,413	1,142	922
	<b>1,665</b>	<b>1,413</b>	<b>1,142</b>	<b>922</b>
<b>Total Investments</b>	<b>1,665</b>	<b>10,925</b>	<b>1,142</b>	<b>10,434</b>

### 17 Deferred tax assets and liabilities

#### *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
<i>In thousands of New Zealand dollars</i>						
Fixed assets	-	-	(4,457)	(4,213)	(4,457)	(4,213)
Intangible assets	-	-	(2,940)	(2,940)	(2,940)	(2,940)
Biological assets	-	-	(24,869)	(25,083)	(24,869)	(25,083)
Inventories	-	-	(50)	(52)	(50)	(52)
Provisions	1,382	1,312	(52)	(49)	1,330	1,263
Other items	178	75	-	-	178	75
<b>Net tax (assets)/liabilities</b>	<b>1,560</b>	<b>1,387</b>	<b>(32,368)</b>	<b>(32,337)</b>	<b>(30,808)</b>	<b>(30,950)</b>

## Notes to the Financial Statements

### 17 Deferred tax assets and liabilities (continued)

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Parent <i>In thousands of New Zealand dollars</i>	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Fixed assets	-	-	(4,248)	(4,011)	(4,248)	(4,011)
Intangible assets	-	-	(2,940)	(2,940)	(2,940)	(2,940)
Biological assets	-	-	(24,586)	(24,860)	(24,586)	(24,860)
Inventories	-	-	(41)	(36)	(41)	(36)
Provisions	1,363	1,301	(52)	(49)	1,311	1,252
Other items	178	75	-	-	178	75
<b>Net tax (assets)/liabilities</b>	<b>1,541</b>	<b>1,376</b>	<b>(31,867)</b>	<b>(31,896)</b>	<b>(30,326)</b>	<b>(30,520)</b>

#### Movement in temporary differences during the year

#### Consolidated

*In thousands of New Zealand dollars*

	Balance 31 May 2012	Recognised in profit or loss	Recognised in equity	Balance 31 May 2013	Recognised in profit or loss	Recognised in equity	Balance 31 May 2014
Fixed assets	(4,222)	173	(164)	(4,213)	(239)	(5)	(4,457)
Intangible assets	(2,940)	-	-	(2,940)	-	-	(2,940)
Biological assets	(23,970)	(1,113)	-	(25,083)	214	-	(24,869)
Inventories	(57)	5	-	(52)	2	-	(50)
Provisions	1,217	46	-	1,263	67	-	1,330
Other items	114	(39)	-	75	103	-	178
	<b>(29,858)</b>	<b>(928)</b>	<b>(164)</b>	<b>(30,950)</b>	<b>147</b>	<b>(5)</b>	<b>(30,808)</b>

#### Parent

*In thousands of New Zealand dollars*

	Balance 31 May 2012	Recognised in profit or loss	Recognised in equity	Balance 31 May 2013	Recognised in profit or loss	Recognised in equity	Balance 31 May 2014
Fixed assets	(4,041)	135	(105)	(4,011)	(262)	25	(4,248)
Intangible assets	(2,940)	-	-	(2,940)	-	-	(2,940)
Biological assets	(23,801)	(1,059)	-	(24,860)	274	-	(24,586)
Inventories	(43)	7	-	(36)	(5)	-	(41)
Provisions	1,204	48	-	1,252	59	-	1,311
Other items	114	(39)	-	75	103	-	178
	<b>(29,507)</b>	<b>(909)</b>	<b>(105)</b>	<b>(30,520)</b>	<b>169</b>	<b>25</b>	<b>(30,326)</b>

## Notes to the Financial Statements

### 18 Inventories

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2014	2013	2014	2013
Semen	2,813	2,539	2,314	2,195
Equipment	7,610	6,166	7,174	6,166
Other	337	299	273	241
	<b>10,759</b>	<b>9,005</b>	<b>9,761</b>	<b>8,602</b>

In 2014, Inventories utilised and expensed during the period amounted to: \$17.60 million (2013: \$15.51 million). Inventories written off in 2014 totalled \$0.119 million (2013: \$0.250 million).

### 19 Trade receivables

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2014	2013	2014	2013
Trade receivables due from related parties	-	-	10,110	9,364
Trade debtors	32,837	30,090	26,034	24,796
Other trade receivables	1,317	4,358	1,317	4,367
	<b>34,155</b>	<b>34,448</b>	<b>37,462</b>	<b>38,527</b>

See note 26 with respect to impairment of trade receivables.

### 20 Cash and cash equivalents

*In thousands of New Zealand dollars*

	Consolidated		Parent	
	2014	2013	2014	2013
Bank balances	5,379	10,675	3,696	9,319
Call deposits	10,122	9,051	10,122	9,051
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>15,502</b>	<b>19,727</b>	<b>13,819</b>	<b>18,370</b>

The effective interest rate on call deposits in 2014 was 3.38 percent (2013: 3.62 percent).

### 21 Capital and reserves

*Share capital - Investment shares*  
*In thousands of shares*

	2014	2013
On issue at 1 June	29,528	29,528
<b>On issue at 31 May</b>	<b>29,528</b>	<b>29,528</b>

## Notes to the Financial Statements

### 21 Capital and reserves (continued)

The Parent had 29,528,590 (2013: 29,528,590) 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). Investment Shares were created by a subdivision of existing Co-operative Shares into 1 Co-operative Control and 10 Investment Shares, in April 2004. The Constitution prescribes that it is not compulsory to hold Investment shares and specifies the maximum shareholding limits for Investment Shares. All Shareholders must sell their total holding of Investment Shares within two years of ceasing to be a Co-operative Control Shareholder. Employees of LIC are able to purchase Investment shares under the LIC Employee Share Scheme.

All 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 available for sale shares.

#### *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>	<b>2014</b>	<b>2013</b>
54.91 cents Final Investment Share dividend – paid in 2014 (2013: 39.16 cents)	16,215	11,564

After 31 May 2014 the following dividends were proposed by the Directors for 2014. The dividends have not been provided for and there are no income tax consequences.

<i>In thousands of New Zealand dollars</i>	<b>2014</b>	<b>2013</b>
35.90 cents per Investment share (2013: 54.91 cents)	10,601	16,215

### 22 Co-operative Control Shares

<i>In thousands of shares</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
On issue at 1 June	5,441	5,117	5,441	5,117
Own shares acquired	(522)	(581)	(522)	(581)
Issue of shares	1,374	905	1,374	905
<b>On issue at 31 May</b>	<b>6,292</b>	<b>5,441</b>	<b>6,292</b>	<b>5,441</b>

The Parent had 6,292,192 (2013: 5,440,683) Co-operative Control shares on issue at reporting date. The shares have a nominal value of \$1 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.

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's farm first mortgage rate.

## Notes to the Financial Statements

### 23 Earnings per share

#### *Basic and diluted earnings per share*

The calculation of basic and diluted earnings per share at 31 May 2014 was based on the profit attributable to Investment shareholders of \$18.046 million (2013: \$23.658 million) and a weighted average number of shares outstanding of 29.528 million (2013: 29.528 million), calculated as follows:

Earnings per Investment Share, after allowing for payment for Co-operative Control Share dividends, equated to 61.1 cents per Investment Share (2013: 80.1 cents per Investment Share).

Earnings per share includes the decrease in the fair value of the elite biological assets of \$0.567 million after tax (2013: increase of \$2.724 million). The dividend is based on the underlying earnings of the Group, being the profit for the year excluding elite biological assets and tax thereon.

#### *Profit after tax attributable to investment shareholders*

*In thousands of New Zealand dollars*

#### **Net profit for the period**

	2014	2013
<b>Net profit for the period</b>	<b>18,046</b>	<b>23,658</b>

#### *Weighted average number of Investment shares*

*In thousands of shares*

Issued Investment shares at 1 June

#### **Weighted average number of Investment shares at 31 May**

	2014	2013
Issued Investment shares at 1 June	29,528	29,528
<b>Weighted average number of Investment shares at 31 May</b>	<b>29,528</b>	<b>29,528</b>

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

### 24 Provisions

#### **Consolidated**

*In thousands of New Zealand dollars*

	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Other	Total
Balance at 1 June 2013	4,462	1,759	286	2	6,508
Additional provision made	4,195	1,468	(37)	-	5,626
Amount utilised	(3,926)	(1,003)	-	(2)	(4,931)
<b>Balance at 31 May 2014</b>	<b>4,731</b>	<b>2,223</b>	<b>249</b>	<b>-</b>	<b>7,203</b>
Non-current	3,555	1,519	63	-	5,137
Current	1,176	704	186	-	2,066
<b>Balance at 31 May 2014</b>	<b>4,731</b>	<b>2,223</b>	<b>249</b>	<b>-</b>	<b>7,203</b>

#### **Parent**

*In thousands of New Zealand dollars*

	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Other	Total
Balance at 1 June 2013	4,362	1,758	285	2	6,406
Additional provision made	4,171	1,469	(36)	-	5,603
Amount utilised	(3,912)	(1,003)	-	(2)	(4,917)
<b>Balance at 31 May 2014</b>	<b>4,621</b>	<b>2,223</b>	<b>248</b>	<b>-</b>	<b>7,093</b>
Non-current	3,479	1,519	62	-	5,060
Current	1,142	704	186	-	2,033
<b>Balance at 31 May 2014</b>	<b>4,621</b>	<b>2,223</b>	<b>248</b>	<b>-</b>	<b>7,093</b>



## Notes to the Financial Statements

### 24 Provisions (continued)

#### *Provision for employee entitlements*

The provision for employee entitlements relates to employee benefits such as long service leave, accrued annual leave, redundancy 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.

#### *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*

The liability for the ACC Partnership Programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The Group manages its exposure arising from the programme by promoting a safe and healthy working environment by:

- induction training on health and safety;
- actively managing work place injuries to ensure employees return to work as soon as practical;
- recording and monitoring work place injuries and near misses to identify risk areas and implementing mitigating actions; and
- identification of work place hazards and implementation of appropriate safety procedures.

The Group has chosen a stop loss limit of 150 percent of the industry premium.

The Group is not exposed to any significant concentrations of insurance risk as work related injuries are generally the result of an isolated event to an individual employee.

An external independent actuarial valuer, Mark Weaver from Melville Jessup Weaver (Fellow of the NZ Society of Actuaries) has calculated the Group's liability, and the valuation is effective 31 May 2014. The valuer has attested he is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuarial valuers report.

The (Bornheutter-Fergusson) method used in the calculations assumes that future inflation will be the same as the historical weighted average inflation which is present in the claims data. It is not possible to calculate the inflation rate explicitly.

Projected future payments were discounted for the time value of money based on secondary market government bond yields as at the valuation date.

The assumed 'loss ratio' of 0.30 percent of liable earnings was determined by considering the observed loss ratios for the earlier loss quarters and having regard to the general trend in claims costs since LIC entered the ACCPP.

An assumption of 11.2 percent of outstanding claims was used for claims handling expenses, which is consistent with the assumption used by ACC.

## Notes to the financial statements

### 25 Trade and other payables

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Trade payables due to related parties	-	-	1,599	1,429
Other trade payables	20,763	18,713	20,059	18,560
Non-trade payables and accrued expenses	3,084	2,611	2,533	2,085
	<b>23,847</b>	<b>21,324</b>	<b>24,190</b>	<b>22,074</b>

### 26 Financial instruments

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

#### (a) Credit Risk

Credit risk is the risk that the counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. The Group is exposed to credit risk through the normal trade credit cycle, advances to third parties and through the use of derivative financial instruments. No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. Reputable financial institutions are used for investing and cash handling purposes.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

The Group's maximum exposure to credit risk for trade and other receivables by geographical regions is as follows:

<i>In thousands of New Zealand dollars</i>	<b>Consolidated</b>		<b>Parent</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
New Zealand	28,293	28,523	32,336	32,412
Australia	363	405	423	682
United Kingdom	2,136	2,041	1,967	1,889
Ireland	1,850	2,334	795	1,866
North America	223	211	653	745
South Africa	306	269	306	269
South America	960	663	960	663
Other regions	23	2	23	2
<b>Trade and other receivables</b>	<b>34,155</b>	<b>34,448</b>	<b>37,462</b>	<b>38,527</b>

The status of trade and other receivables at the reporting date is as follows:

#### Consolidated

<i>In thousands of New Zealand dollars</i>	<b>Gross receivable</b>	<b>Impairment</b>	<b>Gross receivable</b>	<b>Impairment</b>
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
Trade receivables				
Not past due	33,179	-	33,329	-
Past due 0-30 days	681	-	716	-
Past due 31-120 days	269	10	358	29
Past due 121-360 days	74	39	120	46
<b>Total</b>	<b>34,204</b>	<b>49</b>	<b>34,523</b>	<b>75</b>

## Notes to the financial statements

### 26 Financial instruments (continued)

#### Parent

*In thousands of New Zealand dollars*

	Gross receivable 2014	Impairment 2014	Gross receivable 2013	Impairment 2013
Trade receivables				
Not past due	34,961	-	35,903	-
Past due 0-30 days	842	-	837	-
Past due 31-120 days	600	10	884	29
Past due 121-360 days	1,099	30	968	36
<b>Total</b>	<b>37,502</b>	<b>40</b>	<b>38,592</b>	<b>65</b>

In summary, trade receivables are determined to be impaired as follows:

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2014	2013	2014	2013
Gross trade receivables	34,204	34,523	37,502	38,592
Collective impairment	(49)	(75)	(40)	(65)
Net trade receivables	<b>34,155</b>	<b>34,448</b>	<b>37,462</b>	<b>38,527</b>

In the case of insolvency of a debtor the Group generally writes off the receivable in full unless there is clear evidence that a receipt is highly probable.

#### (b) Liquidity Risk

Liquidity risk represents the Groups 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:

#### Consolidated

*In thousands of New Zealand dollars*

	2014		2013	
	Total	Repayable on demand	Total	Repayable on demand
Trade and other payables	23,847	23,847	21,324	21,324
Co-operative control shares	6,292	6,292	5,441	5,441
Total non derivative liabilities	<b>30,139</b>	<b>30,139</b>	<b>26,765</b>	<b>26,765</b>

#### Parent

*In thousands of New Zealand dollars*

	2014		2013	
	Total	Repayable on demand	Total	Repayable on demand
Trade and other payables	24,190	24,190	22,074	22,074
Co-operative control shares	6,292	6,292	5,441	5,441
Total non derivative liabilities	<b>30,482</b>	<b>30,482</b>	<b>27,515</b>	<b>27,515</b>

## Notes to the financial statements

### 26 Financial instruments (continued)

#### (c) Market Risk

##### (i) Foreign Currency Risk

Foreign currency risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk as a result of transactions that are denominated in a currency other than the respective Parent's functional currency. Such transactions, which would typically expose the Group to foreign currency risk include exported sales, imported purchases, purchases of certain plant and machinery and offshore investments, which include subsidiaries and associates. Other currencies, giving rise to currency risk, in which the Group primarily deals are Great British Pounds ("GBP"), United States dollars ('USD'), Australian dollars ('AUD') and Euros ('EUR').

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

*In thousands of New Zealand dollars*

	USD	AUD	GBP	EUR
<b>2013</b>				
<b>Foreign currency risk</b>				
Trade and other receivables	874	405	2,041	2,334
Cash balances	176	387	749	218
Trade and other payables	(1,545)	(735)	(404)	(250)
Net balance sheet exposure before hedging activity	<b>(494)</b>	<b>56</b>	<b>2,387</b>	<b>2,302</b>

##### Forward exchange contracts

Notional amounts	(1,153)	(853)	-	(547)
Net un-hedged exposure	<b>(1,647)</b>	<b>(796)</b>	<b>2,387</b>	<b>1,755</b>

#### 2014

##### Foreign currency risk

Trade and other receivables	1,183	363	2,136	1,850
Cash balances	164	422	740	170
Trade and other payables	(102)	(549)	(447)	(132)
Net balance sheet exposure before hedging activity	<b>1,245</b>	<b>236</b>	<b>2,429</b>	<b>1,888</b>

##### Forward exchange contracts

Notional amounts	(2,605)	(2,032)	-	(277)
Net un-hedged exposure	<b>(1,360)</b>	<b>(1,796)</b>	<b>2,429</b>	<b>1,611</b>

##### (ii) Interest Rate Risk

Interest rate risk is the risk that 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.

#### Consolidated

*In thousands of New Zealand dollars*

	2014		2013	
	Total	6 months or less	Total	6 months or less
<b>Interest bearing instruments</b>				
Cash and cash equivalents	15,502	15,502	19,727	19,727
Short term deposits & loans	-	-	9,513	4,020
Total interest bearing instruments	<b>15,502</b>	<b>15,502</b>	<b>29,239</b>	<b>23,746</b>

## Notes to the financial statements

### 26 Financial instruments (continued)

#### Parent

*In thousands of New Zealand dollars*

	2014		2013	
	Total	6 months or less	Total	6 months or less
<b>Interest bearing instruments</b>				
Cash and cash equivalents	13,819	13,819	18,370	18,370
Short term deposits & loans	-	-	9,513	4,020
Total interest bearing instruments	<b>13,819</b>	<b>13,819</b>	<b>27,883</b>	<b>22,390</b>

#### **Capital management**

The Group's capital includes share capital, reserves and retained earnings.

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 recognised 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.

The Group is not subject to any externally imposed capital requirements.

The allocation of capital between its specific business segments' operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently of those responsible for the operation.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Group's management of capital during the period.

#### **Sensitivity analysis**

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates will have an impact on profit.

At 31 May 2014 it is estimated that a general increase of one percent in interest rates would increase the Group's profit before income tax by approximately \$0.155 million (2013: \$0.197 million).

It is estimated that a general increase of 100 basis points (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 \$0.043 million for the year ended 31 May 2014 (2013: \$0.021 million). The forward exchange contracts have been included in this calculation.

#### (iii) Hedging

##### *Forecast transactions*

The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. As at 31 May 2014 the fair value of forward exchange contracts was adjusted against the hedging reserve at that date. The net fair value of forward exchange contracts used as hedges of forecast transactions at 31 May 2014 is a net liability of \$0.037 million (2013: \$0.013 million), comprising assets of \$0.024 million (2013: \$0.068 million) and liabilities of \$0.061 million (2013: \$0.081 million).

The cashflow from the forward exchange contracts will occur within the next financial year.

## Notes to the financial statements

### 26 Financial instruments (continued)

#### Fair values

The carrying value is not significantly different to their fair value.

The methods used in determining the fair values of financial instruments are discussed in note 4.

#### Fair value hierarchy

The table below analyses financial instruments 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).

#### Consolidated

##### 2014

	Level 1	Level 2	Level 3	Total
Derivatives - designated at fair value through profit or loss	-	(37)	-	(37)
Available for sale financial assets	1,109	268	289	1,665

Reconciliation of investments defined as level 3:

Opening balance	289
Movements in fair value through reserves	<u>(0)</u>
	<u>289</u>

##### 2013

	Level 1	Level 2	Level 3	Total
Derivatives - designated at fair value through profit or loss	-	(13)	-	(13)
Available for sale financial assets	856	268	289	1,413

Reconciliation of investments defined as level 3:

Opening balance	339
Movements in fair value through reserves	<u>(50)</u>
	<u>289</u>

## Notes to the financial statements

### 27 Operating leases

#### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2014	2013	2014	2013
Less than one year	942	666	760	630
Between one and five years	1,982	628	1,584	628
More than five years	971	-	971	-
	<b>3,895</b>	<b>1,294</b>	<b>3,315</b>	<b>1,259</b>

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

Lease payments are reviewed as per the individual lease agreements to reflect market rentals.

During the year ended 31 May 2014 \$0.962 million was recognised as an expense in the income statement in respect of operating leases (2013: \$0.981 million). \$0.132 million was recognised as income in respect of subleases (2013: \$0.128 million).

### 28 Capital commitments

As at 31 May 2014 the Group had entered into contracts to purchase property, vehicles, plant and equipment, and intangible assets for \$5.406 million (2013: \$2.464 million). These commitments are expected to be settled in the following financial year.

### 29 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.

### 30 Reconciliation of the profit for the period with the net cash from operating activities

<i>In thousands of New Zealand dollars</i>	Consolidated		Parent	
	2014	2013	2014	2013
<b>Profit for the period</b>	<b>18,046</b>	<b>23,658</b>	<b>16,930</b>	<b>23,553</b>
Adjustments for:				
Depreciation	8,581	7,301	8,109	6,902
Amortisation of intangible assets	8,461	6,403	8,421	6,403
Change in deferred taxation	(142)	1,092	(194)	1,013
Change in fair value of elite biological assets	787	(3,784)	787	(3,784)
Impairment	(619)	325	181	320
Loss on sale of property, plant and equipment	128	(413)	154	(391)
	<b>17,197</b>	<b>10,923</b>	<b>17,459</b>	<b>10,463</b>
Change in inventories (increase)/decrease	(1,754)	(1,454)	(1,159)	(1,408)
Change in trade receivables (increase)/decrease	294	(8,366)	1,065	(8,251)
Change in biological assets (increase)/decrease	(68)	(56)	(18)	36
Change in other current assets (increase)/decrease	(842)	(23)	(820)	(21)
Change in trade and other payables increase/(decrease)	2,523	(265)	2,116	(73)
Change in provisions increase/(decrease)	(39)	739	(97)	725
Items reclassified to/from Investing/Financing activities	1,683	612	1,718	499
	<b>1,797</b>	<b>(8,814)</b>	<b>2,805</b>	<b>(8,493)</b>
<b>Net cash from operating activities</b>	<b>37,040</b>	<b>25,768</b>	<b>37,194</b>	<b>25,523</b>

## Notes to the financial statements

### 31 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, subsidiary and associate companies are related parties of the Parent. The Group has no identified other related parties.

#### *Transactions with key management personnel*

Key management personnel compensation comprised:

*In thousands of New Zealand dollars*

	2014	2013
Short term employee benefits	3,999	3,347
Defined Contribution Superannuation Plans	138	134
	<b>4,137</b>	<b>3,481</b>

*In thousands of New Zealand dollars*

#### **Sale of goods and services**

	2014	2013
Sale of goods and services to directors and key management personnel during period	649	592

Total Balance outstanding

76	106
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	Co-operative Shares		Investment Shares	
	2014	2013	2014	2013
<b>Shareholding of Related Parties</b>				
G Baldwin	1,489	832	-	-
B Guy	2,253	2026	13,122	12,816
M Jagger	1,364	1,234	21,731	21,546
D Jensen	1,446	1,109	2,710	2,710
M King	7,016	7,652	21,176	20,568
S Poole	1,851	2,496	21,219	21,219
A Reid	6,251	6,293	90,240	90,240

All Directors (excluding Messrs Lough, Dale and Waldvogel), are customers of the Parent and purchase products and services for their farming activities on an ongoing and arms length basis.

#### *Other related party transactions*

The Parent enters into transactions with its subsidiaries in the ordinary course of business as follows:

- Financing;
- Sales and services; and
- Purchase of services

*In thousands of New Zealand dollars*

	2014	2013
Sale of goods and services to subsidiaries during period	2,241	2,763
Purchase of services from subsidiaries during period	514	700
Total net balance outstanding from financing, sale of goods and services, and purchase of services	<b>10,110</b>	<b>9,364</b>

Sales of goods and services to subsidiaries, and purchase of services from subsidiaries, were made in the ordinary course of business on an arms length basis.

Related party loans are repayable on demand and are charged interest at rates in line with the relevant markets base lending rate. Interest charged by the parent to subsidiaries for the year was \$0.149 million (2013: \$0.118 million).

G Baldwin is a Director of Livestock Improvement Corporation Limited and also a Director of Trinity Lands Limited. During the 2014 financial period, Livestock Improvement Corporation made sales of \$0.193 million to Trinity Lands Limited (2013: \$0.171 million).

A Reid is a Director of Livestock Improvement Corporation Limited and also a Director of Glenire Farm Limited. During the 2014 financial period, Livestock Improvement Corporation made sales of \$0.041 million to Glenire Farm Limited (2013: \$0.042 million).



## Notes to the financial statements

### 31 Related parties (continued)

#### *Employee Share Scheme*

LIC acts as manager for the LIC Employee Share Scheme and has incurred \$0.024 million of costs in running the scheme for the year (2013: \$0.019 million).

### 32 Group Investments

The Group has the following significant subsidiaries:

#### Subsidiaries

Name	Country of Incorp	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2014 %	2013 %		
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
Dairy Automation Limited	NZ	Ordinary	100		31-May	Farm Automation Systems

### 33 Business Combinations

*In thousands of New Zealand dollars*

On 28th February 2014, the group purchased the assets and business of Dairy Automation Limited for \$5.535 million.

Dairy Automation Limited specialises in the supply and installation of state of the art in shed automation equipment and advanced milk sensory technology. The company's in-shed sensors include measurement of milk fat, protein, yield and somatic cell count.

As at the reporting date, the identification and fair valuation of the assets and assumed liabilities purchased was not complete due to the information not yet being available. The unidentified assets include Property, plant and equipment, Intangibles, and Research and development assets.

Factors which make up the tentative goodwill include the expected synergies with LIC's farm software and farm automation business units, intangible assets that do not qualify for separate recognition, and, as yet, other unidentified factors.

## Notes to the financial statements

### 33 Business Combinations (continued)

The following table summarises the consideration paid for the assets and business of Dairy Automation Limited, the tentative classification and fair value of the assets purchased, liabilities assumed at the acquisition date.

<b>Total Consideration</b>	<b>5,535</b>
<b>Tentative recognised amounts of identifiable assets purchased and liabilities assumed</b>	
Inventory	496
Property, plant and equipment (note 13)	56
Intangibles (note 14)	912
Trade and other payables	(73)
<b>Total tentative identified net assets</b>	<b><u>1,391</u></b>
Goodwill	4,144
<b>Total</b>	<b><u>5,535</u></b>

Acquisition-related costs of \$0.025 million have been included in other expenses in the income statement for the year ended 31 May 2014.

It is impracticable to calculate the revenue and profit of the group for the current reporting period as though the acquisition date was at the beginning of the reporting period. This is due to the close proximity of the acquisition date to the reporting date.

### 34 Subsequent events

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

#### Report on the company and group financial statements

We have audited the accompanying financial statements of Livestock Improvement Corporation Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 1 to 41. The financial statements comprise the balance sheet as at 31 May 2014, the income statements 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, for both the company and the group.

#### *Directors' responsibility for the company and group financial statements*

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group 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 company and group 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 company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 company and 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 financial statements.

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

Subject to certain restrictions, partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. Our firm has also provided other services to the company and group in relation to taxation and advisory services. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

### *Opinion*

In our opinion the financial statements on pages 1 to 41:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 31 May 2014 and of the financial performance and cash flows of the company and the group for the year then ended.

### **Report on other legal and regulatory requirements**

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Livestock Improvement Corporation Limited as far as appears from our examination of those records.



23 July 2014  
Hamilton

## **Strong farming year drives good result for LIC and its farmer owners**

**Increasing demand for solutions to improve the prosperity and productivity of New Zealand dairy farms has resulted in a strong year of revenue growth and on-farm innovation for LIC.**

The result reflects a great season for dairying, with high demand for LIC's herd testing and artificial breeding services and an increasing number of farmers investing in technology which drive efficiency gains on-farm.

The uptake of its three smartphone apps, which have been downloaded more than 11,000 times, is one example of farmer-demand for technology.

As part of plans to deliver more innovations which fit the co-operative's new strategy, LIC purchased Dairy Automation Limited (DAL) in February, a Waikato-based company which manufactures sensor technology for the real-time analysis of milk on-farm.

The co-op is also investing more than \$40 million in its own information systems, to ensure a more accurate service can be provided as well as faster delivery of new products, and this is reflected in the year-end result from increased depreciation costs and accelerated new product development.

The ongoing commitment to research and development was also reflected, with \$14.9 million of direct R&D expenditure, and combined with other new product development totalling approximately \$22 million, representing 10% of revenue.

LIC is working closely with DairyNZ to ensure the successful transfer of the Core Database later this year and work is also under way to identify scope and timeframes for the second phase of this four phase project which involves the transfer of the Animal Evaluation Unit operations to DairyNZ in approximately mid-2015.

The 2013/2014 year presented challenges for the co-op's international business but this will be addressed as a key theme of LIC's new strategy, with a deeper focus on growing key markets, particularly UK, Ireland, Brazil and China, and looking at what businesses could be acquired to align with the co-op and its growth aspirations.

### **Revenue**

LIC revenue and other income for 2013/2014 was \$211 million, 6% ahead of the \$199 million achieved during 2012/2013. All profit is returned to LIC's 10,500 New Zealand dairy farmer owners/shareholders as products, research and development or dividends.

### **NPAT**

LIC net profit after tax was \$18.0 million, down \$5.6 million from the previous year. This decrease largely reflects the large spend on core technology and infrastructure to ensure the co-op's technology is up-to-date, supported and able to provide a stable platform for delivering new products to farmers. Net profit after tax for LIC includes the annual revaluation to fair value of the biological elite bull team which, this year, was a decrease net of tax of \$0.57 million compared to an increase of \$2.7 million last year.

The fluctuations on fair value of the elite bull team are excluded for the purposes of dividend for LIC and are not considered as a key indicator of trading performance. For this reason LIC also reports:

### **Underlying Net Earnings**

LIC Underlying Net Earnings (NPAT excluding the increase or decrease on fair value of elite biological assets and the related tax effect) decreased from \$20.93 million to \$18.6 million this year, which flows through to a dividend to farmer shareholders of \$11.168 million compared to \$16.75 million last year.

### **EBIT excluding elite biological assets**

Improved sales volumes across most business areas was offset by higher investment in technology and new product development, and resulted in earnings, before interest, taxation and fair value adjustments on elite biological assets, decreasing by 7.2% to \$25.32 million, compared to \$27.29 million in 2012/2013.

### **Strength of balance sheet**

LIC continues to operate a strong balance sheet with total assets including cash, software, land and buildings and bull teams of \$283.8 million, an increase of \$8 million over the previous year with a stable equity ratio of 75%.

### **Cash flow**

Cash flows from operations were very strong for the 2013/2014 year generating \$37.0 million, compared to \$25.8 million in 2012/2013, with higher sales and strong cashflows on-farm from the high milk payout. Purchases of both tangible and intangible assets increased from \$23.9 million to \$34.6 million as the co-operative ramped up its investment in innovative products for farmers and technology upgrades.

### **Dividend**

LIC will pay a dividend of \$11.17 million, representing 60% of underlying earnings, to its Co-operative and Investment Shareholders. This contrasts with the dividend paid in 2013 of \$16.75 million, and \$11.9 million in 2012.

The 2013/2014 dividend translates to 8.65 cents per Co-operative Control Share and a net 35.90 cents per Investment Share and represents a gross yield of 6.94% on Investment Shares compared to 13.2% last year. The fully imputed dividend payments will be made to shareholders on 22 August 2014.

### **Leadership change**

The appointment of Wayne McNee to CEO in July was a highlight for the year, and for LIC's future as it signals a change in step for the co-op. Wayne was tasked with completing a thorough analysis of the co-operative, and developing a new strategy to grow the business and improve the service and solutions we provide to shareholders.

The Board is both supportive of and encouraged by the aspiration of the new strategy, which aims to deliver \$1 billion revenue by 2025. It's an ambitious target, but one that represents a significant opportunity for LIC, our shareholders, and for New Zealand agribusiness.

### **Summary**

It has been gratifying for the Board, Management and staff of LIC to experience the new levels of innovation and value we have been privileged to generate in the lives, and on the farms, of our shareholders and customers.

LIC could not achieve what it does without the passion and expertise of its staff and the wise and farmer focused governance of its Board and Shareholder Council.



Murray King  
Chairman

## GOVERNANCE REPORT

### Role of Board of Directors

The Board is responsible for the direction and control of Livestock Improvement's activities. It is committed to the guiding values of the Company, integrity, respect, continuous improvement and service to its Shareholders. Legislation 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 of farm management practices through products based on genetics, biotechnology, information and advice.

### Board Composition

The Board is comprised of seven Elected Directors elected by the regions 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.

### Election of Directors

The Directors elected by the Central region (Messrs B Guy and S Poole) retired by rotation in 2014. Mr Guy did not seek re-election. Mr Poole, being eligible offered himself for re-election. Four nominations were received, for two positions on the board, resulting in Mr S Poole being re-elected and Dr A Watters being elected for a four year term of office effective 1 June 2014.

Appointed Director Mr P Lough retired by rotation and was re-elected for a further three year term at the 2013 Annual Meeting.

### Committees

The Board uses committees to facilitate effective decision-making. All committees are comprised of Directors only.

### 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 is chaired by Appointed Director, Mr J Dale.

The Audit Committee meets at least four times a year with the external Auditors and Executive.

### 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 for Senior Executives of the Company, principally the Chief Executive and those reporting to him. It also considers, and if appropriate approves, any wage and salary percentage adjustments for the Co-operative's employees.

### **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.

### **Meetings**

The Board met eight times in 2013/14 with three additional strategy session days.

### **Insider Trading**

All Directors of the Co-operative are familiar with, and have formally acknowledged acceptance of, an 'Insider Trading Code' that controls any dealings in securities by Directors. The provisions of the code are, substantially, in accordance with the 'Insider Trading (Approved Procedure for Company Officers) Notice' issued under the Securities Amendment Act 1988.

## **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 48 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) and Regen Ltd

#### **J Dale:**

Director of Taranaki Investment Management Limited

#### **D Jensen:**

Director of Farmland Co-operative Society and Satara Kiwifruit Supply Ltd.

#### **M King:**

Director of Milktech Ltd, Scott Milktech Ltd, South Island Dairy Development Centre (SIDCC) and Waimea Community Dam Ltd.

#### **P Lough:**

Director of Methven Ltd, Quotable Value NZ, Port of Nelson Ltd and Fisher & Paykel Appliances Holdings Ltd

#### **S Poole:**

Trustee of Waimate West Demonstration Farm

#### **A Reid:**

Director of Opuha Water Partnership Ltd, South Island Dairy Development Centre (SIDCC), W.A. Systems (2003) Ltd, Farm Electric Ltd, Kakahu Irrigation Ltd, Totara Valley Irrigation Ltd, Tagit Enterprises Ltd, Reid Systems Ltd and Glenire Farm Ltd.

#### **J Waldvogel:**

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



## DIRECTORS AND REMUNERATION

Directors of the Parent received the following remuneration:

	<b>Fees \$000</b>
M King	114
G Baldwin	47
J Dale	67
B Guy	47
M Jagger	47
D Jensen	47
P Lough	60
S Poole	47
A Reid	47
J Waldvogel	47
	<b>570</b>

## ENTRIES IN THE INTEREST REGISTER

### (a) Directors Interest

#### 24 July 2013

Financial Assistance to Voluntary Investment Share Scheme - B Guy, M Jagger and M King declared an interest as members of the Scheme.

#### 12 February 2014

G Baldwin declared an interest in the Low Group which pertains to his herd.

#### 19 March 2014

G Baldwin (as a Director of Ballance) declared a conflict of interest on Full Farm Software - Vision and Scope, and as such left the meeting during discussions.

#### 23 April 2014

A Reid declared an interest in the Matrix Research trial by offering to sell LIC six animals to act as a control group.

#### 21 May 2014

G Baldwin declared a potential conflict of interest in any discussion regarding AgHub and Ballance.

Participation in the company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2014/2015 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
M Jagger	1	\$11,000
M King	2	\$22,000
A Reid	5	\$55,000

### (b) Share Dealings by Directors

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	2014		2013	
	Co-operative Control Shares	Investment Shares	Co-operative Control Shares	Investment Shares
G Baldwin	1,489	-	832	-
B Guy	2,253	13,122	2,026	12,816
M Jagger	1,364	21,731	1,234	21,546
D Jensen	1,446	2,710	1,109	2,710
M King	7,016	21,176	7,652	20,568
S Poole	1,851	21,219	2,496	21,219
A Reid	6,251	90,240	6,293	90,240

Any other increase in holding 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 Officers 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 year the following numbers of employees received total remuneration, including benefits, of at least \$100,000:

Remuneration Range	Returning	Cessations	Total
100,000 – 109,999	24	1	25
110,000 – 119,999	27		27
120,000 – 129,999	9	1	10
130,000 – 139,999	10	3	13
140,000 – 149,999	15	1	16
150,000 – 159,999	9		9
160,000 – 169,999	7	1	8
170,000 – 179,999	2		2
180,000 – 189,999	2		2
190,000 – 199,999	1		1
210,000 – 219,999	1		1
220,000 – 229,999	1		1
230,000 – 239,999		1	1
240,000 – 249,999	1		1
250,000 – 259,999	2		2
260,000 – 269,999	1		1
280,000 – 289,999	1		1
290,000 – 299,999		1	1
320,000 – 329,999		1	1
360,000 – 369,999		1	1
400,000 – 409,999		1	1
570,000 – 579,999	1	1	2
830,000 – 839,999		1	1
Total	114	14	128

**RESOLUTION OF DIRECTORS**

**DATED 23 JULY 2014 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 2014.

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.

## Shareholder Information as at 31 May 2014

### Size of Shareholding

Holdings	Shareholders	Investments Share Held	% of Total
1-999	1,672	734,087	2.49
1,000-1,999	1,459	2,201,053	7.45
2,000-2,999	1,327	3,272,299	11.08
3,000-3,999	906	3,147,175	10.66
4,000-4,999	581	2,597,097	8.80
5,000-9,999	1,194	8,119,631	27.50
Over 10,000	454	9,457,248	32.03
<b>Total</b>	<b>7,593</b>	<b>29,528,590</b>	<b>100%</b>

### Twenty Largest Shareholdings of Quoted Securities

	Investment Shares Held	% of total Shares
Anglesea Consulting Limited	694,982	2.35
Twin Terraces Limited	318,599	1.08
Custodial Services Limited - Employee Share Scheme	247,878	0.84
William Terence Leonard	153,559	0.52
Mark Francis Slee + Devon Mathieson Slee	115,299	0.39
Farnley Tyas Farms Limited	93,188	0.32
WK & VG Bishop Limited	86,149	0.29
Malrose Properties Limited	66,756	0.23
Peter John Lynskey + Carole Joyce Lynksey - Maolla Trust	65,502	0.22
Brian Douglas Dunlop + Gary Bruce Dunlop + Jennifer Anne Chapman - B & S Dunlop Trust	65,000	0.22
Christopher John Stark + Graham Carr - Deebury Pastoral Partnership - Ealing	63,549	0.22
Hammond Limited	62,243	0.21
Gillian Patricia Alice Gow + James Platt Gow + Matthew Platt Gow - Gow Family Trust	52,887	0.18
Riverholme Pastures Limited	52,730	0.18
Christopher John Stark + Graham Carr - Deebury Pastoral Partnership - Maronan	52,353	0.18
Stuart Bruce Bay + Doris Beth Bay - Bay Family Trust	51,091	0.17
Browns Farm Limited	50,360	0.17
James Austin Wilkins + Donna Maree Wilkins - Jad Wilkins Partnership	49,634	0.17
Kaimanawa Farms Limited	49,288	0.17
K F Jones Limited	48,930	0.17
		<u>8.26</u>

### Credit Rating Status

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

### Substantial Security Holders

No persons are substantial security holders of the Company as referred to in Section 26 of the Securities Act 1988.

### Donations

The Company made donations totalling \$18,061 during the year ended 31 May 2014 (2013: \$24,981).

### 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 LIVESTOCK IMPROVEMENT CORPORATION LIMITED

Waivers and approvals have been granted in respect of the following NZAX Listing Rules:

- 1 Rule 1.1.2 in respect of the definition of “Renounceable” to refer to a Right or offer that is transferrable to any person.  
Rule 1.1.2 in respect of the definition of “Renounceable” to refer to a Right or offer that is transferrable to any other 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 26.4(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;
  - (c) The nomination procedure for directors as set out in paragraph 1(b) of Schedule 3.
- 3 Rule 3.2.3 to permit the provisions of paragraph 1(e) of Schedule 3 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 27 of the Constitution and clauses 1(c) and (d) of Schedule 3 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 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 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 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 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) 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) 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 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 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) Clause 24 list Matters which require the consent of the Minister for Agriculture and Fisheries (or other relevant Minister). This provision is required by the Dairy Industry Restructuring Act 2001 and 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) Rules 4.3.2(b)(I), 7.3.3(b) and 7.6.3(a) which all relate to issues of securities before 1995, have not been included in the Constitution because, as a matter of fact, these provisions do not apply to the Company;
  - (c) Clause 3.5.1(a) 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 proposed to be 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;
  - (d) 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;

- (e) Clause 3.5.2(b) of the Constitution provides for the reference in Rule 7.3.4(ba) 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);
- (f) Paragraph 6.1 of Schedule 1 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 Ltd ("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 \$34,000.

In relation to the financial assistance provided for the Dividend Plan, the LIC Board resolved on 23 July 2014 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 \$10,000.

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 23 July 2014 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) estimated to be \$24,000. 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 23 July 2014 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.