



NOTICE OF SPECIAL MEETING AND EXPLANATORY MEMORANDUM

Share Simplification Proposal
Single Share Structure

LIVESTOCK IMPROVEMENT
CORPORATION LIMITED

February 2018



IMPORTANT TRANSACTION FOR LIC SHAREHOLDERS

Livestock Improvement Corporation Limited (LIC) is proposing to make some important changes to its share structure. There are various steps required to effect the reorganisation of LIC's share structure. These steps and associated changes described in this document are collectively referred to as the "Proposal".

Each Shareholder has been sent an "Information Pack" which requires your immediate attention. The Board strongly advises that you read it carefully and in full before deciding how to vote. The Information Pack includes:

- a letter from the Chairman of LIC, Introduction to the Proposal, and Q&A;
- this Notice of Special Meeting and Explanatory Memorandum (this document);
- the Independent Adviser's Report commissioned by LIC; and
- a Voting Form / Proxy Appointment Form.

The Information Pack is intended to inform you about the Proposal, enable you to consider its implications, and help you decide whether to vote for or against the Resolutions.

This document is a limited disclosure document for the purposes of clause 24 of Schedule 1 to the Financial Markets Conduct Act 2013 (FMCA) (the variations exclusion) and clause 35 of Schedule 8 of the Financial Markets Conduct Regulations 2014 (Regulations). The variations exclusion allows LIC to offer a variation of the terms of a security (in this case, both LIC's Co-operative Control Shares and Investment Shares) without the need for a product disclosure statement. The limited disclosure document must meet the disclosure requirements prescribed by clause 35 of Schedule 8 of the Regulations.

If you choose not to vote at all, whether the Resolutions are passed or not will be determined solely by reference to the number of votes cast by the shareholders who do vote. If the Proposal is approved, it will be implemented and apply to all Shareholders, regardless of whether or not they voted.

The full copy of the Independent Adviser's Report by Northington Partners is provided with this document and a summary of the Independent Adviser's Report is set out on page 14 of this document. A summary of the proposed changes to the Constitution is provided in Schedule 2 and the full copy of the New Constitution is available at www.lic.co.nz/vote

You should note the risk factors associated with an investment in LIC described on page 6 and in Schedule 3.

NO INVESTMENT ADVICE

The Information Pack has been prepared without reference to the commercial or investment objectives, financial and taxation situation or particular needs of any Shareholder or any other person or entity. The information and recommendations contained in the Information Pack do not constitute, and should not be taken as, financial or investment advice. The Board encourages you to seek independent financial, investment or other professional advice before making any decision as to whether or not to vote in favour of the Resolutions or any other investment decision in connection with any matter related to the Information Pack.

NZAX LISTING

Application has been made to New Zealand's stock exchange (NZX) for permission to quote the Ordinary Shares on the NZX Alternative Market (NZAX) if the Proposal is approved. All requirements of NZX relating to the application that can be complied with on or before the date of this Information Pack have been duly complied with. However, NZX accepts no responsibility for any statement in this Information Pack. The NZAX is a licensed market operated by NZX, which is a licensed market operator regulated under the FMCA.

DEFINED TERMS

Unless otherwise indicated, capitalised terms used in this document have the specific meaning given to them in the Glossary on page 40 of this document.

DATE OF THIS DOCUMENT AND INFORMATION PACK

This document and the Information Pack are dated 9 February 2018.

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Note: The Independent Adviser’s Report has been circulated with this document.

ENQUIRIES

Enquiries in connection with the Information Pack can be directed to your broker, financial, investment, or other professional adviser. If you have any questions about the number of Shares you hold in LIC, or how to vote or complete the Voting Form, please contact the Election Helpline on **0800 666 033**.

SECTION A

Introducing the Proposal

Introduction – Have Your Say on LIC’s Future

LIC is proposing to simplify its share structure so that it will have a single class of Ordinary Shares. This Proposal is part of a broader process of change and transformation that LIC began in 2016. The focus of this process is to help ensure a resilient and adaptive co-operative that is able to respond in an agile way to challenges and opportunities that may lay ahead.

The overriding priority of the Board in reaching this point has been protecting the co-operative principles that are at the heart of LIC and helping prepare it for the future. The Proposal detailed in this document does just that.

You will have received with this document a letter from Murray King, the Chairman of LIC, and an Introduction to the Proposal. This document should be read together with those documents, as this document provides more detail about the Proposal and includes details of the notice of the meeting at which you will be asked to vote on the Proposal.

It is important that you understand what is being proposed and you are actively involved in the decision making. A Roadshow has been arranged to allow us to answer any questions you may have. In addition, you will shortly be contacted directly by an LIC representative to talk through how you can vote and to answer any further questions you may have.

Most importantly, we want you to vote. If the Proposal is approved, it will be binding on all Shareholders, whether or not they voted for the Proposal.

All Co-operative Control Shareholders and Investment Shareholders will be entitled to vote on the Proposal. Details on eligibility to vote on the Resolutions proposed and how to cast your vote are set out on page 33 of this document.

Have your say on LIC’s future – vote online, in person, via postal vote, or appoint a proxy to vote on your behalf. See page 8 for relevant deadlines for submitting your vote.

Key Points

- LIC will move from having two classes of shares, being Co-operative Control Shares and Investment Shares, to a single class of Ordinary Shares. The existing Shares will be reclassified as Ordinary Shares after adjustment for their relative rights and values.
- The fundamentals of the co-operative will be preserved.
- The Share Standard will increase but, at Implementation, additional shares will be issued on a nil-paid basis (to be repaid over time as described on page 24) to ensure all existing Shareholders comply with the new Share Standard at Implementation.
- Following Implementation, each Ordinary Share will have a vote and will be entitled to receive dividends based on LIC’s profit.
- The Ordinary Shares will be traded on the NZAX¹ and subject to market pricing. All Shareholders will be able to benefit from dividends and capital appreciation over time if the Shares increase in value, noting that the Shares may also reduce in value.

An overview of the Proposal is set out in this document under the headings *Overview of the Proposal* and *Summary of Impact of the Proposal*. The Overview describes where Shareholders can find more information later in this document.

1. Provided they are fully paid up.

Proposal Recommended by the Board and Shareholder Council

The LIC Board and the Shareholder Council both fully support the Proposal and recommend that all Shareholders vote in favour of the Resolutions proposed. Each Director has indicated that he or she will be voting the Shares they control in favour of all of the Resolutions.

Independent Adviser's Report

The LIC Board has commissioned Northington Partners to assess the rationale for the Proposal, its merits and relative fairness to the holders of Co-operative Control Shares and Investment Shares.

The Independent Adviser has concluded that, on balance, it is in the best interests of both classes of Shareholders and LIC.

A summary of the Independent Adviser's Report is set out on page 14. A full copy of the Independent Adviser's Report is circulated with this document. You are encouraged to read the Independent Adviser's Report in full.

Key Risks

Any investment in LIC will be subject to industry and LIC-specific risks, and your exposure to these risks may change as a consequence of the Proposal being implemented. These risks relate to the financial position and performance of LIC, and to LIC's ability to deliver products and services to its Shareholders. In particular, under the Proposal, the value of the Shares going forward will be determined by the market and will move up and down depending on a variety of factors, including LIC's performance and other external macroeconomic and geopolitical factors. That means any Shareholders looking to buy or sell Shares will be exposed to market price risk.

Shareholders should consider these potential risks, the likelihood of a risk event occurring, and the impact it may have on a Shareholder's investment. Schedule 3 of this document outlines the key risks to LIC's business and your investment identified by the Directors and includes an assessment of the exposure and any steps LIC has taken, or proposes to take, to mitigate such risks.

What You Need To Do

STEP	DETAILS
1. Read and carefully consider the Information Pack	The Information Pack contains the information your Board believes will assist you to understand the Proposal and the reasons for it.
2. Consider the Notice of Special Meeting included in this document	The Notice of Special Meeting outlines your eligibility to vote on the Proposal, the voting process and the key dates and deadlines. If you are eligible to vote, choose the voting method that suits you best and diarise the relevant deadlines. If you are not attending the Special Meeting in person, you will need to submit the relevant forms in advance in order to vote.
3. Participate in the process and be informed	Attend your nearest Roadshow. Details of the Roadshow are set out in Schedule 4 and you can choose which Roadshow meeting to attend. If you have any questions or want further information about the Proposal, voting process or Implementation, please be sure to ask. The contact details are set out in the Directory at the back of this document. You may also wish to consult with your usual financial, investment or other professional adviser.
4. Vote on the Proposal	<p>Make sure you vote on the Proposal by attending the meeting in person, appointing a proxy to attend the meeting in your place, or submitting a postal or electronic vote in advance of the Special Meeting. Check page 34 of this document for detailed requirements for your preferred voting method.</p> <p>During the voting period, if you have not voted, you will receive “reminder to vote” emails from iro@electionz.com.</p>

Keys Dates

Approval Timetable for the Proposal

The below timetable outlines the process for the approval of the Proposal.

DATE	TIME	DETAILS
26 Feb 2018 – 9 March 2018		Roadshow to introduce the Proposal and answer any questions on the Proposal (see Schedule 4 for details).
6 March 2018	5.00 pm	Shareholders' voting eligibility determined. Any Shareholder on the share register as at 5.00 pm on this date will be eligible to vote the Shares they hold at that time.
12 March 2018	10.30 am	Cut-off for receipt of postal voting and proxy forms. Internet voting closes.
14 March 2018	10.30 am	Special Meeting is held at LIC's Tempero Centre, Cnr. Ruakura and Morrinsville Roads, Newstead, Hamilton, with registration starting from 9.30 am.

Implementation Timetable for the Proposal (if approved)

The timetable below shows how the Proposal will be implemented, if approved. These steps will take effect in the order listed below. The dates listed below may be subject to change, as may be approved by the Board and Announced to Shareholders.

DATE ²	TIME	ACTION
14 March 2018	On passing of the Resolutions	Existing Constitution is amended in accordance with Resolution 2(a) (see Section B of this document).
5 July 2018		Notice of Implementation Date is Announced to Shareholders.
16 July 2018	5.00 pm	Trading in Investment Shares is suspended.
19 July 2018		New Co-operative Control Shares are issued / relevant excess Co-operative Control Shares are redeemed in any such case to meet the Share Standard as part of LIC's 2018 Annual Update.
19 July 2018		Share Standard is amended in accordance with Resolution 1(a) (effective immediately after LIC's 2018 Annual Update).
19 July 2018		New Co-operative Control Shares are issued on a nil paid basis (with the liability of \$1 per new Share to be repaid over time) and Co operative Control Shareholders subscribe for those Shares to meet the new Share Standard in accordance with Resolution 1(b). Investment Shares are subdivided in accordance with Resolution 1(c).
19 July 2018		The existing Constitution is revoked and the New Constitution is adopted in accordance with Resolution 2(d). All Co-operative Control Shares and Investment Shares are Reclassified into Ordinary Shares in accordance with Resolutions 2(b) and 2(c).
23 July 2018	10.00 am	Trading in Ordinary Shares opens.

2. These dates are subject to change, as stated above.

Overview of the Proposal

TOPIC	SUMMARY	SEE ALSO
Why does LIC need a new share structure?	Protecting the Co-operative: The overriding priority is protecting the co-operative principles that are at the heart of LIC. The Proposal will allow LIC to continue to look after the interests of all its Shareholders with the core services it provides, while also enabling it to generate sufficient profits to better position it for the future.	Page 18
	To be fair to all: The Proposal seeks to remove the tension in LIC's share structure which exists because of the different rights between the two classes of Shares. The Co-operative Control Shares have substantively all voting rights and the Investment Shares have most of the economic rights.	Page 19
	Capital flexibility: The proposed capital structure would give LIC greater flexibility to address any future capital needs, noting that LIC has no current intention to seek investment from a third-party investor for either LIC or LIC Agritechnology Company Limited. If LIC wishes to introduce further equity funding from a third-party investor for LIC or LIC Agritechnology Company Limited in the future, it would seek Shareholder approval for it at that time. However, LIC may acquire interests in other companies, make further minority or majority investments, and form joint ventures from time to time as it grows and diversifies the business.	Page 20
	Supporting LIC's strategy: Moving to a single class structure is an important part of ensuring LIC Shareholders' collective voice is heard on LIC's strategy without the conflicting perspectives that arise from the different rights attaching to the two classes of Shares.	Page 20
	Simplicity: Having a single Share structure will simplify the administrative requirements for both LIC and its Shareholders and assist to make the share structure more easily understood by LIC's stakeholders.	Page 20
What does the Proposal involve?	Move to a single class of Shares: In broad terms, the Proposal involves reclassifying all Co-operative Control Shares and Investment Shares into a single class of Ordinary Shares.	Page 21
	Need to equalise values between the classes: Because Investment Shares are worth more than Co-operative Control Shares, Co-operative Control Shareholders will need to invest additional capital over time to bridge this gap. This will be done by way of an issue of additional Co-operative Control Shares to holders of Co-operative Control Shares on a nil paid basis (Nil Paid Shares), meaning the Shareholders receiving these Shares will owe \$1 for each such Share and will be required to pay for them over time in the way described below.	Page 21

TOPIC	SUMMARY	SEE ALSO
What does the Proposal involve? Cont	Additional investment met from dividend flow: Co-operative Control Shareholders will meet their additional investment obligation from dividends paid on all Nil Paid Shares and other Ordinary Shares held to meet the Share Standard ³ . Dividends on all other Shares, including Investment Shares reclassified into Ordinary Shares will continue to be paid to Shareholders to do with as they wish.	Page 23
	NZAX listing: Ordinary Shares will trade on the stock exchange with a market price and there will no longer be a \$1 Co-operative Control Share. The price of Ordinary Shares will likely move up and down over time. Importantly, if a Shareholder is required to purchase more Shares to meet the Share Standard, the Shares will need to be purchased via the market or from another Shareholder (unless LIC decides in the future to issue more Shares). The price paid for these Shares will vary. If a Shareholder fails to purchase the Shares needed to meet the Share Standard, LIC will purchase the necessary Shares on behalf of the Shareholder.	Page 23
	Share Standard reset: The Share Standard will be reset to one Share for every \$6.25 of Qualifying Expenditure from the current \$1 of share capital for every \$25 of Qualifying Expenditure. The Nil Paid Shares to be issued to Co-operative Control Shareholders on Implementation can be used to meet the Share Standard so all Shareholders will automatically meet the Share Standard following Implementation. Going forward, Shareholders will be required to purchase additional Shares if required to do so to meet the Share Standard. The price of the Shares will have no effect on the number of Shares a Shareholder is required to hold under the Share Standard and the new Share Standard will test compliance by reference to the number of Shares rather than their value.	Page 24
	Constitutional changes: The Proposal will result in a relatively substantial number of changes to LIC's Constitution. Most of the changes are consequential – that is, they reflect the key elements of the Proposal described in this document. Some changes have also been made to increase the flexibility of the Board's decision-making ability with respect to changes to the Share Standard, Minimum Purchases Amount and Qualifying Products and Services.	Page 26
What are the conditions to the Proposal?	The Proposal will only take effect if approved by holders of Co-operative Control Shares and Investment Shares, each to a level of 75% of the votes received. The changes to the Constitution are subject to Ministerial consent.	Page 27
How will the Proposal be implemented?	Implementation of the Proposal, if approved by Shareholders, will take place in July 2018 as part of the 2018 Annual Update (except for Resolution 2(a) which will take effect immediately upon approval of the Resolutions). Before the Reclassification takes effect, Shareholders' current holdings of Co-operative Control Shares will be adjusted by reference to their Qualifying Expenditure in the 2017/2018 season.	Page 27

3. If a Shareholder wishes to sell a Nil Paid Share before it has been paid up through dividends or otherwise, that Shareholder will need to pay it up out of their own resources before it can be sold. See page [] for more information.

Summary of Impact of the Proposal

A detailed comparison of the rights attaching to each of the Co-operative Control Shares, the Investment Shares and the Ordinary Shares is set out in Schedule 1. A summary of the key impacts on Co-operative Control Shareholders and the Investment Shareholders is set out below.

Impact of the Proposal on Existing Shareholders

	WHAT DO I HAVE THAT IS CHANGING?	WHAT DO I GET?
Co-operative Control Shareholders	Your Co-operative Control Shares.	<p>A Shareholder will receive, for each Co-operative Control Share they hold:</p> <ul style="list-style-type: none"> One fully paid Ordinary Share; and Three Nil Paid Shares. Nil Paid Shares must be paid up over time but have full dividend and voting rights even while not fully paid. <p>For example: A Shareholder holding 20 Co-operative Control Shares will receive 20 Ordinary Shares and 60 Nil Paid Shares. They will have an outstanding liability on their Nil Paid Shares of \$1 per Share.</p>
	Co-operative Control Share priority dividend (based on the first mortgage lending rate of LIC's principal banks in respect of secured loans made to dairy farmers) and priority rights to capital on liquidation.	<p>A right to any dividends declared by LIC largely determined by reference to LIC's profits. These will be paid equally to all Shareholders (there will be no priority). Dividends received on all Nil Paid Shares and any Ordinary Shares held to meet the Share Standard must be applied to pay up the Nil Paid Shares. See page 27 for an example.</p>
	<p>The right and obligation to redeem Co-operative Control Shares at nominal value of \$1. Co-operative Control Shareholders currently do not share in any capital appreciation.</p> <p>For example: If a Co-operative Control Shareholder holding 1,000 Co-operative Control Shares has reduced their Qualifying Expenditure in the last season so that it is required and permitted to hold only 800 Co-operative Control Shares, they must redeem the excess 200 Co-operative Control Shares by returning them to LIC and receiving \$1 per Share, or \$200 in total.</p>	<p>Shares may no longer be redeemed and must be sold to another Shareholder directly or on the share market at the prevailing market price. Shares will benefit from any capital appreciation but may also reduce in value. If a Shareholder is required to purchase further Shares in the future in order to meet the Share Standard, they will need to be bought at the then prevailing market price.</p> <p>For example: If a Shareholder holding 1,000 Shares has reduced their Qualifying Expenditure in the last season in such a way that it is now required to hold only 800 Shares under the new Share Standard, they may choose to:</p> <ul style="list-style-type: none"> sell the excess 200 Shares, provided these Shares are fully paid, on the NZAX or directly to another Shareholder. Those Shares would be sold at market price; or retain those Shares.

Impact of the Proposal on Existing Shareholders

	WHAT DO I HAVE THAT IS CHANGING?	WHAT DO I GET?
	Voting rights. Co-operative Control Shareholders currently hold 100% of voting rights (other than with respect to matters affecting the rights of the Investment Shareholders).	The Proposal will result in voting rights on all Shares. Co-operative Control Shares will be reclassified into Ordinary Shares holding voting rights. Because Investment Shares will also be reclassified into Ordinary Shares with voting rights, the total voting rights attributable to the Co-operative Control Shares will be diluted. Based on the current ratio of Co-operative Control Shares to Investment Shares, it is expected that Co-operative Control Shares (together with any Nil Paid Shares issued as part of the Proposal) will collectively be attributed approximately 18% of total votes following Implementation. The final percentage will be determined once adjustments are made to the total number of Co-operative Control Shares at the time of the 2018 Annual Update. LIC does not expect that change to be material but it could vary by several percent.
	Control over Director appointments.	The Proposal will give voting rights to all Shareholders who will be able to participate in all voting decisions, including Director appointments, in a manner provided in the New Constitution.
Investment Shareholders	Your Investment Shares.	A Shareholder will receive four fully paid Ordinary Shares for each Investment Share they hold.
	A dividend declared by LIC, after payment of the priority dividend payable to holders of the Co-operative Control Shares.	A right to any dividends declared by LIC largely determined by LIC's profit. The Proposal will ensure all Shares have equal dividend rights, with no priority. Based on the current ratio of Investment Shares to Co-operative Control Shares, it is expected that Investment Shares will collectively be attributed approximately 82% of the total dividend rights immediately following Implementation. The final percentage will be determined once adjustments are made to the total number of Co-operative Control Shares at the time of the 2018 Annual Update.
	Investment Shareholders currently have no voting rights except with respect to matters affecting the rights of the Investment Shareholders.	As explained above, the Proposal will give full voting rights on all Shares. Upon Implementation, former Investment Shareholders will collectively hold approximately 82% of voting rights (including Director appointment rights). The final percentage will be determined once adjustments are made to the total number of Co-operative Control Shares at the time of the 2018 Annual Update.

Summary of the Independent Adviser's Report



Auckland

+64 9 913 4600
Level 26, 151 Queen St
PO Box 105-384
Auckland 1143

Christchurch

+64 3 378 2105
L4, 70 Gloucester Street
PO Box 13-804
Christchurch 8011

www.northington.co.nz

9 February 2018

The Board of Directors
Livestock Improvement Corporation Limited
Private Bag 3016
Hamilton 3240

Dear Directors

Introduction

Livestock Improvement Corporation Limited ("**LIC**" or the "**Company**") is a user-owned co-operative that develops, produces and markets artificial breeding, genetics, farm software, farm automation and herd testing services to over 10,000 New Zealand dairy farmers and international customers.

The Company currently has two classes of shares:

- "Co-operative Control Shares" – 100% owned by LIC customers, who must subscribe for shares with a nominal value equal to 4% of their Qualifying Expenditure with the Company over the preceding dairy season; and
- "Investment Shares" - listed on the NZAX market, with trading restricted to Co-operative Control Shareholders.

In response to inherent conflicts between the holders of the two classes of shares, LIC began a comprehensive review of its share structure two years ago. A number of alternative structures have been evaluated and the LIC Board has now resolved to proceed with a proposal to simplify the Company's capital structure and move to a single class of Ordinary Shares (the "**Proposal**").

The LIC Board has commissioned Northington Partners Limited ("**Northington Partners**") to prepare an Independent Appraisal Report ("**IAR**") in relation to the Proposal. While a report is not formally required from a regulatory point of view, it will be made available to all shareholders to ensure that they are appropriately informed when deciding whether or not to approve the relevant resolutions in relation to the Proposal.

The principal purpose of the IAR is to provide an independent assessment of the rationale for the Proposal, its merits and the fairness to the holders of Co-operative Control Shares and Investment Shares respectively. These issues are all considered within the context of the current purpose and potential future strategy of the Company.

This letter summarises the findings of our IAR.

Summary of the Proposal

Full details of the Proposal are set out in the Notice of Special Meeting and Explanatory Memorandum ("**Notice of Meeting**") including a description of the background and purpose of the Proposal, as well as details on the mechanics of the process and the impact of the changes for each individual shareholder.

Table 1 summarises the key features of the two share classes currently on issue.

Northington Partners Limited
Mergers, Acquisitions & Divestments • Debt & Equity Capital Raising • Corporate Finance



Table 1: Summary of Key Features of Co-operative Control Shares and Investment Shares

Feature	Co-operative Control Shares	Investment Shares
Shares on Issue	6,281,892 (18% of total shares on issue)	29,528,590 (82% of total shares on issue)
Voting Rights¹	Full standard voting rights	Voting rights only in respect of matters affecting their rights and in the event of a liquidation of the Company
Dividend Policy	Receive preferred dividends based on Westpac New Zealand's farm first mortgage interest rates (to the extent they are paid)	Receive ordinary dividends based on LIC's financial performance
Ownership Requirement	Must hold shares with aggregate nominal value equal to 4% of expenditure on LIC's qualifying products or services (assuming this expenditure is more than \$500)	No obligation to own Investment Shares
Ownership Restrictions	Cannot be traded; shares are issued or redeemed by the Company so that customers remain compliant with the Share Standard	Can only be traded between Co-operative Control shareholders. A shareholder can own a maximum of 5% of Investment Shares on issue and must sell within two years of no longer holding Co-operative Control Shares
Number of Shareholders	10,212	6,691
Share Trading and Redemption	Issued and redeemed by LIC at a nominal value of \$1.00 per share	Traded on the NZAX through registered brokers or directly between shareholders off-market

¹ Any single shareholder is limited to 1% of total voting rights.

Under the Proposal, all shares in LIC will be reclassified into a single class of shares which are Ordinary Shares. The steps involved in the process are set out in the Notice of Meeting under the section titled "What does the Proposal involve" and are designed to deliver an outcome whereby the aggregate number (and value) of Ordinary Shares held by each group of shareholders is consistent with the number of Co-operative Control Shares and Investment Shares that are currently on issue.

Summary of our Assessment of the Proposal

A full assessment of the merits of the Proposed Transaction for LIC shareholders is set out in the IAR which accompanies the Notice of Meeting sent to LIC shareholders. Table 2 below summarises the conclusions contained in the IAR.

Table 2: Summary of Conclusions

Item	Key Conclusions
Overview	<ul style="list-style-type: none"> The current share structure creates potential conflicts between the Co-operative Control Shares and the Investment Shares, which in turn gives rise to a number of issues for the on-going management and governance of the Company. The key conflicts relate to shareholders at two ends of the Co-operative Control Share and Investment Share ownership spectrum (those having the majority of their investment in LIC weighted to either class). Shareholders weighted to Co-operative Control Shares have greater voting rights but a limited share in the future prospects of the Company or exposure to the potential financial benefits of LIC's recent transformation programme and new growth opportunities. Conversely, those shareholders with more Investment Shares obtain a greater share of the economic value of LIC and its potential future growth with no ability to control the strategy or direction of the Company. These potential conflicts are exacerbated by the fact that the shareholders do not own the same proportions of the two share classes; for example, about 36% of shareholders only hold Co-operative Control Shares, while another 31% are overweight in Investment Shares (own a higher ratio of Investment Shares)

Summary of the Independent Adviser's Report Cont



Item	Key Conclusions
	<p>compared to the overall ratio of 18% Co-operative Control Shares / 82% Investment Shares).</p> <ul style="list-style-type: none"> We believe that simplifying the capital structure to one class of share now is a sensible goal. Doing so will eliminate the conflict, preserve the company's co-operative principles and allow the Company to focus on a strategy designed to benefit all shareholders equally. Unfortunately, the proposed implementation process is relatively complicated and has different impacts for different groups of shareholders, largely dependent on the relative holding of Co-operative Control Shares compared to Investment Shares. Those shareholders who currently only own Co-operative Control Shares are likely to do so simply to meet the Share Standard required to access LIC's goods and services. The Proposal results in these farmers both increasing their investment in LIC through Nil Paid Shares (in essence, an interest free loan from the Company) and, given the terms of the Ordinary Shares, effectively converting their exposure to the Company to more of a standard commercial interest. This commercial focus is more in line with the current objectives of the Investment Shares. While some of the current shareholders who are underweight in Investment Shares may view the consequences of the Proposal negatively, we suggest that the impacts on an individual basis are relatively limited. Most farmers' investment in LIC is not very material in the context of their overall farming operations and the Proposal will not significantly change that position. Those shareholders overweight in Investment Shares are giving up some economic value in LIC through a reduced share of the future profits of the Company but obtain voting rights that will provide greater influence over the strategy and future direction of the Company (including the ability to vote on director appointments). This change will ensure Investment Shareholders have greater ability to preserve their economic interests. When considered across all LIC shareholders, we conclude that the benefits of the Proposal outweigh the potential negative impacts for some groups of existing shareholders.
Relative Value Attributed to Investment Shares	<ul style="list-style-type: none"> Implementation of the Proposal requires an assessment of the current intrinsic value of the Investment Shares compared to the \$1.00 nominal value attributed to the Co-operative Control Shares. The relative value attributed to each share class is important because it determines how much of the total economic value of the business is allocated to each group of shareholders as part of the Proposal. Based on a range of factors, including independent expert advice, the LIC Board has attributed a relative value of \$4.00 to each Investment Share. This is broadly in line with our assessed value range for the Investment Shares of between \$3.81 and \$4.88 per share, with a mid-point of \$4.34. We therefore conclude that the adopted Investment Share value of \$4.00 per share is fair to all shareholders.
Impact on Control Position of the Company	<ul style="list-style-type: none"> Under the current capital structure, 100% of the voting rights in the Company are attached to the Co-operative Control Shares. Following completion of the Proposal, all Ordinary Shares on issue will have voting rights and the distribution of voting rights amongst shareholders will change. The Proposal would have no impact on the control position if all shareholders held the same ratio of Co-operative Control Shares and Investment Shares. However, the shareholders who are underweight in Investment Shares will end up with a lower level of voting rights and those with an overweight position in Investment Shares will increase their relative voting control. These changes for individual farmers are not material. No shareholder currently has a significant control position in LIC and the Proposal will not change that position at an individual farmer level. However, the overall control position for the group of farmers who currently only own Co-operative Control Shares will be materially affected, moving from 40% of the total voting rights on issue down to 7%. Conversely, the total voting rights currently held by those shareholders who are characterised as being overweight in Investment Shares will increase from 26% to 69%. That means that a significant block of voting rights will effectively be transferred from a group of shareholders who currently have limited commercial interest in the Company (via either zero or a limited position in Investment Shares) to those that are currently most focused on commercial outcomes (holding a relatively high



Item	Key Conclusions
	<p>number of Investment Shares). In effect these shareholders are giving up their voting interests in exchange for a greater entitlement to the future profits of LIC.</p> <ul style="list-style-type: none"> While these changes are important, we note that if the Proposal does go ahead, all shareholders should then be uniformly focused on commercial returns irrespective of their current relative holdings in Co-operative Control Shares and Investment Shares.
Other Implications for LIC Shareholders	<p>The Proposal will have a range of other potential implications for all LIC shareholders:</p> <ul style="list-style-type: none"> Share Standard: A number of changes to the current Share Standard are proposed as part of the Proposal. We believe that these will provide some benefits to both the Company and its shareholders in the future and will be implemented in a way which has limited short-term impact on the current shareholders. Market Price Risk: All Ordinary Shares will be subject to market price risk and may trade at prices above or below the implied issue price at inception (which is based on the assessed \$4.00 value of the Investment Shares). The risk is especially relevant to farmers who may be looking to retire in the short term and will therefore need to sell all of their shares. In relation to the nil paid Ordinary Shares issued in exchange for Co-operative Control Shares, it is possible that a retiring farmer will need to pay-up the share to \$1.00 and then sell the share on-market at a lower price. Liquidity: While the Investment Shares are currently listed on the NZAX market, liquidity is extremely low. We believe that there could be a higher level of liquidity in the Ordinary Shares following the Proposal, but note that the improvement is likely to be modest. Dividends Returns: Shareholders will be giving up the preferred dividend on their Co-operative Control Shares for ordinary dividends meaning all shareholders' future dividends will be directly linked to the future financial performance of LIC. While LIC paid no dividends on Co-operative Control or Investment Shares in FY17, assuming future dividends in-line with historic averages, shareholders with no Investment Shares (or underweight Investment Shares) will receive a greater share of future total dividends and shareholders overweight Investment Shares will suffer a modest level of dilution in exchange for greater control. Shareholders with a relatively balanced level of Co-operative Control to Investment Shares will receive similar dividend returns to what they do currently.

Conclusion

On balance, we believe that the Proposal is in the best interests of both classes of shareholders and the Company. While the impacts of moving to a single share structure differ for some groups of shareholders depending on their current relative investment in Co-operative Control Shares and Investment Shares, we believe that the overall benefits outweigh the negative effects. The current dual share structure gives rise to a potentially serious conflict of interest between the two shareholder groups and poses a considerable barrier to meeting the objectives of the Company. The reclassification to one class of Ordinary Shares will ensure that the Company can retain its co-operative principles while focusing on a future strategy that optimises the outcomes for all shareholders.

Yours faithfully
Northington Partners Limited

Greg Anderson
Director
+64 9 302-6211 | +64 27 457-6780
greg.anderson@northington.co.nz

The Proposal in more detail

Why does LIC need a single share structure?

History

In 2003, LIC Shareholders voted to move to two classes of Shares – Co-operative Control Shares and Investment Shares. The share structure change was driven by a number of reasons at the time including:

- a desire to give Shareholders a greater share in the Co-operative's value;
- providing Shareholders choice over the degree of their exposure to investment risk; and
- supporting a strategy of growth and giving LIC more options to raise capital in the future.

These were all legitimate issues at the time but, 14 years on, the circumstances and LIC have evolved.

In 2015 and 2016, an LIC roadshow canvassed Shareholders' views about strategy and the longer term needs of LIC. In particular, the different growth and earnings profiles, and the capital requirements of key parts of the business were discussed. The proposal was made to separate the company into two – its core genetics and its agri-technology businesses. That legal separation took place in December 2016, although it has not been implemented structurally.

During the course of that roadshow, the Board received considerable Shareholder feedback to the effect that the interests of the co-operative and its farmers now and into the future would be better served by a single class of Shares. Increasingly, Shareholders are not purchasing Investment Shares (around a third of Shareholders only hold Co-operative Control Shares). These Shareholders are missing out on the value created by the Company. Recent feedback has also indicated that the current share structure is complex and not well understood.

The Board considers the existing Share structure to be unsustainable and that a move to a single class of Shares is the best strategy for ensuring a strong farmer owned co-operative with aligned incentives for all Shareholders. The Independent Adviser's Report also opined that "the current dual share structure gives rise to a potentially serious conflict of interest between the two [S]hareholder groups, and the reclassification to one class of Ordinary Shares will ensure that [LIC] can retain its co-operative principles while focusing on future strategy that optimises the outcomes for all [S]hareholders".⁴

The key reasons why LIC is recommending the Proposal are summarised below.

Protecting the Co-operative

The Proposal is intended to protect the co-operative principles that are fundamental to LIC. Critically, LIC will remain owned exclusively by New Zealand dairy farmer customers (except for a limited shareholding by LIC employees, as is the case now)⁵, and the minimum shareholding requirement will be based on each Shareholder's spend with LIC. At the same time, Shareholders may continue to choose to invest more than the minimum share requirement, just as they do now.

The new share structure will help future-proof the Co-operative by allowing it to continue to look after its farmer Shareholders through the core products and services it supplies, while also earning sufficient returns to reinvest for the future.

4. See section 1.4 of the Independent Adviser's Report.

5. The Proposal will preserve the existing right for LIC employees to hold Shares through the employee share scheme. The total number held by all employees at any time will be limited under the new Constitution to 5% of LIC's Shares.

Fairness

The Proposal is intended to remove the tension between the two classes of Shares and create fairness in the share structure. In broad terms, this tension is a bi-product of the fact that the Co-operative Control Shareholders do not benefit from capital appreciation or (in any material sense) the profitability of LIC. At the same time, Co-operative Control Shareholders control the voting rights, while the non-voting Investment Shares carry all material economic rights to LIC's profits and surplus assets. This tension is particularly acute in the context of the distinct growth and earnings profiles and capital requirements of LIC's two businesses – its core genetics business and its agri-technology business.

In creating a single class of Shares, the Proposal allows every Shareholder to:

- have a vote for each Share they hold which will count towards all Shareholder decisions in the manner provided in the New Constitution;
- share equally in all distributions and therefore in the distributed value created through LIC's products and services; and
- share any capital gains as the value of the Ordinary Shares rises among all Shareholders (acknowledging that the Shares could go down in value). Currently, only Investment Shareholders are able to realise any capital appreciation on their Shares. Co-operative Control Shares have a nominal value of \$1 and are bought and sold at that nominal value.

As a significant component of LIC's earnings is derived from the business it does with its Co-operative Control Shareholders, the Board considers that, if LIC is successful in executing its strategic initiatives and business plans, all Shareholders should benefit from the associated dividends and appreciation in the LIC Share price that is expected to result.

If the Proposal does not go ahead, the disparity between the two classes of LIC Shares is expected to continue to widen over time, with fewer Shareholders holding both Co-operative Control and Investment Shares. What this means is LIC will be required to balance the interests of those Shareholders who vote on Shareholder matters, who generally want improved products and services at an affordable price, with the interests of those Shareholders expecting a strong financial return on their investments. The Independent Adviser opined that, in its view, "the status quo arrangements pose a serious impediment to meeting the objectives of the business".⁶

6. See section 4.1 of the Independent Adviser's Report.

Capital Flexibility

While there is currently no intention to raise capital from a third-party investor for either LIC or LIC Agritechnology Company Limited, if LIC is required to do so in the future, its ability to raise capital is significantly constrained by the existing share structure. We think it is prudent to consider this now as part of future-proofing the Co-operative.

The Proposal would provide LIC with capital flexibility to ensure it can respond appropriately to any future funding needs and help secure a financially sustainable future for LIC through a stronger capital base without redemption risk, and without requiring all Shareholders to contribute that capital.

If LIC wishes to introduce further equity funding from a third-party investor for LIC or LIC Agritechnology Company Limited in the future, it would seek Shareholder approval for it at that time. However, LIC may acquire interests in other companies, make further minority or majority investments, and form joint ventures from time to time as it grows and diversifies the business.

Supporting LIC's Strategy

LIC's purpose is empowering livestock farmers through the delivery of superior genetics and technology. This purpose reflects the two separate businesses within LIC – the core genetics business and its agri-technology business.

These businesses have distinctly different growth and earnings and risk and return profiles. They also have different capital requirements. While nothing is currently proposed, it is foreseeable that decisions may need to be made in the future about capital allocation and focus, and that can only sensibly occur with all Shareholders having one voice.

The Proposal will put in place a share structure which will better support LIC's strategy by ensuring that LIC Shareholders' voice is heard on both parts of business, without the conflicting perspectives that arise from the two class Share structure.

Simplicity

The capital structure of any co-operative is complex and LIC is particularly complex given the existence of the Investment Shares.

While the Proposal in its own right has a number of elements to it, the intention with the Proposal is to simplify the administrative requirements for both LIC and its Shareholders. There are a number of aspects to this:

- Having a single share structure will simplify the administrative requirements for both LIC and its Shareholders and it will eliminate the complexity of having two classes of Shares with different rights.
- The Proposal seeks to minimise the steps which Shareholders are required to take to meet the Share Standard. This includes changes such as:
 - basing the Share Standard on a three-year average of Qualifying Expenditure instead of an annual spend;
 - a compliance window to allow Shareholders time to acquire the necessary Ordinary Shares on-market, with a mechanism whereby LIC will do this on behalf of Shareholders if they fail to do so;
 - introducing bands, to allow some flexibility in customer purchases in any season without the increased spend resulting in the Shareholder having to purchase additional Shares to meet the Share Standard; and
 - allowing Shareholders to hold Shares in excess of the Share Standard (except where they cease to spend the Minimum Purchases Amount in any season or fail to meet other Qualifying Customer criteria).

These changes are discussed in detail under the heading *Share Standard* on page 24.

What does the Proposal involve?

Reclassification to a Single Class of Shares

The Concept

Under the Proposal, all Shares in LIC will be reclassified into a single class of Shares – Ordinary Shares.

The Reclassification is complex given the need to balance Shareholders' interests in the context of the different voting and economic rights of the two classes of Shares and the different values of such Shares.

Core Principles

The core principles of the Proposal are as follows:

- to align the relative values between the Co-operative Control Shares and the Investment Shares before they are reclassified into Ordinary Shares.
- to maintain the relative proportions between the classes of Shares (by number) – meaning that the Reclassification will take place on a 1:1 basis (Share Ownership Ratio).

These core principles are discussed in more detail below.

Aligning Relative Values

To ensure that the Proposal is fair to all Shareholders, it must be done in a way that reflects the relative rights and also the value of each class of Shares. The Co-operative Control Shares and Investment Shares have different values. Co-operative Control Shares have a nominal value of \$1 each. Investment Shares are traded on the NZAX, with a price that fluctuates.

The Board has determined its view of the relative values of the Co-operative Control Shares and the Investment Shares after taking external financial and valuation advice on the relative values of the Co-operative Control Shares and the Investment Shares. The Board has attributed a value of \$4 to each Investment Share for the purposes of the Proposal.

Maintaining the Share Ownership Ratio

The total number of LIC Shares on issue as at the date of this document is approximately 35.8 million, comprising approximately 6.3 million Co-operative Control Shares and approximately 29.5 million Investment Shares. Co-operative Control Shares therefore currently make up 18% of the total number of Shares on issue and Investment Shares make up 82% of the total number of Shares on issue. The Share Ownership Ratio is therefore currently 18:82, although this will change when Co-operative Control Shares are issued and redeemed as part of the 2018 Annual Update. LIC does not expect a material change to the number of Co-operative Control Shares at the 2018 Annual Update but it could vary by several percent. The Share Ownership Ratio used for the purposes of Implementation will be determined by the actual ratio of Co-operative Control Shares to Investment Shares at that point in time.

The Board considers that the Share Ownership Ratio reflects a fair allocation of the Ordinary Share capital between the two classes of Shares. This is particularly so given that Co-operative Control Shares currently hold substantively all of the voting rights. To preserve the Share Ownership Ratio, Co-operative Control Shareholders will be required to subscribe for three additional Shares for each Co-operative Control Share they hold as shown in the table on the following page.

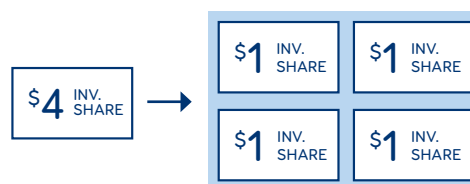
If we consider the ratio based on the pre-2018 Annual Update Share numbers, on Implementation, the holders of the Co-operative Control Shares will together hold 18% of the total voting rights and will be entitled to 18% of the total dividend. Therefore, the holders of the Investment Shares will together hold 82% of the total voting rights and will be entitled to 82% of the total dividend. These percentages will, of course, change to reflect the actual Ownership Ratio based on the post-2018 Annual Update Share numbers, as explained above.

Co-operative Control Shares

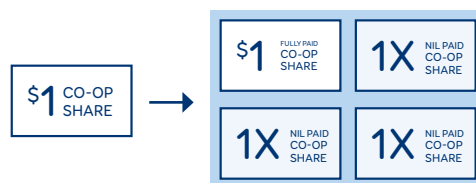
Investment Shares

Current Position⁷**Step 1A⁸ - Aligning Value of each Class**

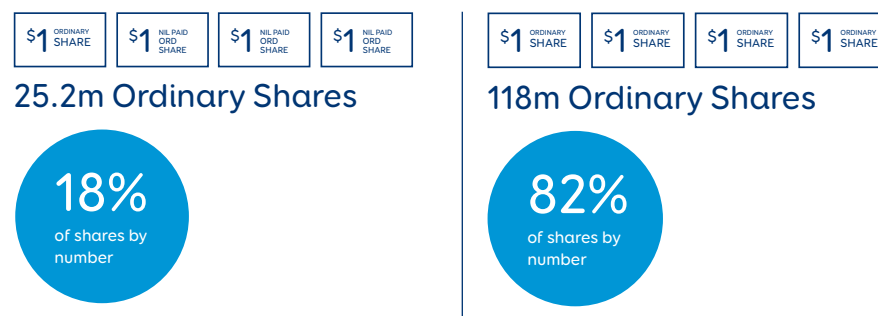
Subdivide each Investment Share into 4. Align the value of the Investment Shares and Co-operative Control Shares

**Step 1B - Restoring the Share Ownership Ratio**

Increase the number of Co-operative Control Shares by raising the Share Standard and issuing 3 nil paid Co-operative Control Shares for each current Co-operative Control Share

**Step 2 - Reclassifying all Shares**

Reclassify each Co-operative Control Share (including nil paid Co-operative Control Shares) and Investment Share into an Ordinary Share

**Post Implementation Position¹⁰**

7. The number of Shares and the ratio between Share classes will be determined following the 2018 Annual Update by reference to the number of Shares and the ratio of Co-operative Control Shares to Investment Shares at that point in time.

8. As shown in the Implementation Timetable, Step 1A and Step 1B take effect simultaneously.

9. Without adjustment, Co-operative Control Shares would, as a result of the subdivision, have only approximately 5% of the Ordinary Shares – representing approximately 5% of voting rights.

10. See note 7.

Nil Paid Shares

The nil paid Co-operative Control Shares will be issued as part of Step 1B following the 2018 Annual Update and will immediately be Reclassified as nil paid Ordinary Shares (Nil Paid Shares). The Board has determined those Shares (following Reclassification) will have the following features:

- The Shares will be issued nil paid but with a liability outstanding on each Share of \$1.
- The liability on the Nil Paid Shares will be called and paid over time from dividends declared and paid by LIC on Ordinary Shares held from time to time to meet the Share Standard (and such additional amounts as a Shareholder wishes to apply towards the outstanding liability). This additional investment required to pay up such Shares will bridge the value gap between the Co-operative Control Shares and Investment Shares.
- Each Nil Paid Share will carry full voting rights and the right to a full dividend.
- Each Nil Paid Share will count towards meeting the Share Standard.
- If a Shareholder wishes to transfer an Ordinary Share that is not fully paid, they will need to pay it up fully before the transfer¹¹. A Nil Paid Share may not be traded on the NZAX platform until it is paid up in full.

Shareholders should note that in the unlikely event that LIC fell into such significant financial difficulties that it was placed into liquidation, the liquidator would be entitled to call up the unpaid balance of any Nil Paid Shares existing at that time. Similarly, the unpaid balance will have to be paid if the Shareholder leaves LIC, at which time that Shareholder will be required to sell their Ordinary Shares. The unpaid balance of any Nil Paid Share will not be affected by any changes in the trading price of Ordinary Shares (i.e. Shareholders may need to pay more than the trading price when they exit the Co-operative).

Shareholders should recognise that these risks need to be considered in the context of market-based pricing (which may be above or below the Nil Paid Share issue price of \$1), the potential for capital appreciation, and the other aspects of the Proposal as a whole.

NZAX Listing and Share Trading of Fully Paid Ordinary Shares

Fully Paid Ordinary Shares will trade on the NZAX platform, as the Investment Shares currently do. The price of those Shares will likely move up and down over time.

If a Shareholder is required to purchase more Ordinary Shares to meet the Share Standard in the future, the Shares will need to be sourced on-market at the then applicable market price or off-market from another Shareholder. Similarly, if a Shareholder ceases to be a customer of LIC, that customer's Shares will need to be sold on or off-market. Shareholders will be entitled to sell, at any time, any Ordinary Shares they hold over and above what is needed to meet the Share Standard.

Shareholders will need to establish a relationship with a broker if they need to purchase or sell Ordinary Shares on-market. Just as is the case currently for trading in the Investment Shares, a broker engaged to buy or sell Shares on behalf of a Shareholder will charge that Shareholder a brokerage fee for this service.

LIC will have the discretion to issue Ordinary Shares from time to time should it decide it needs to do so. This discretion may, by way of example, be exercised if there is a material demand and supply imbalance adversely affecting Shareholders or if LIC wishes to raise capital from Shareholders more generally. The Proposal does not give LIC the right to issue Shares to any person other than a current customer or participant in one of the Company's share schemes.

Under the Proposal:

- LIC will have the right to compulsorily purchase, or procure the purchase of, Shares on behalf of a Shareholder who has not shared up to meet their Share Standard obligation by 15 October in any year (this is the Compliance Date, which is three months after 15 July – the target date by which LIC typically notifies Shareholders of how many Shares they need to purchase to meet the Share Standard). In certain circumstances, LIC may not be able to notify Shareholders by 15 July but will do so as soon as practicable thereafter.
- The period for those Shareholders, who have ceased to be customers meeting the Minimum Purchases Amount, to sell their Shares will reduce from 24 months to around 16 and a half months, to align with the same 15 October date. LIC can compulsorily sell those Shares on behalf of the relevant Shareholder should the Shareholder fail to sell them by that date.

11. The Board reserves the right to approve the transfer of Nil Paid Shares before they have been paid up in full, which it expects to exercise in exceptional circumstances only.

- The dates have been aligned to assist any compulsory transaction process as it is LIC's intention (but not its obligation) to net the compulsory buys and sells off against each other and then seek to transact the outstanding balance (which could be a buy or sell) through the market. On occasion, LIC may choose to reduce any outstanding balance by issuing, buying or selling Shares for its own account as required.

There will be no defined period for the process to be completed but ultimately all the compulsory buys and sells will be transacted at the same volume weighted-average price as was achieved in the market. Shareholders should be aware that if there is a large number of Shares to buy or sell this may take some time to complete and it may also have an effect on the LIC Share price during this period, despite any efforts that LIC may make to minimise this.

Where LIC is required to instruct a broker to buy Shares on behalf of a Shareholder, this will be done in substantively the same manner as is currently undertaken for the Dividend Reinvestment Plan and Voluntary Investment Scheme operated by LIC. LIC will in effect calculate the required number of Shares and then instruct a broker, currently Craigs Investment Partners (Craigs), to acquire those Shares on-market as and when appropriate. The length of time that Craigs is in the market buying Shares will depend on the number of Shares to be acquired and the number of Shares being offered into the market by or on behalf of selling Shareholders at the relevant time.

From an implementation perspective, while Craigs is in the market acquiring the Shares and until all necessary Shares are purchased, any purchased Shares will be held on trust by an Approved Holding Entity (currently, NZ Guardian Trust). Once all necessary Shares are purchased, the Shares will be transferred from the trust entity to the new owners (i.e. Shareholders). The Share price paid by the new owners will be set by reference to the average price achieved on all Shares purchased, being the volume weighted average price.

The key difference from the existing Share purchasing schemes going forward will be that there will likely be more Shares available for sale at any given time. This will be due to the Ordinary Shares not being redeemable (unlike the existing Co-operative Control Shares) and the Shareholders remaining free to sell any Shares they hold in excess of the Share Standard. The Proposal also aligns the window for selling and buying Shares to promote availability of Shares on the market during the period of high demand.

Market Share Price and Dividend Distribution

As part of the Proposal, all fully paid Shares will be listed on NZAX, providing market pricing.

Reflecting its strong linkage to the financial health of the dairy sector and the agricultural sector more generally and other risks set out in Schedule 3, LIC's earnings, and therefore its dividends, can display significant volatility. For example, LIC paid a dividend of 6.4365 cents in 2017, paid no dividend in 2016, and paid its highest ever dividend of 54.9142 cents in 2013.

Unsurprisingly, given the dividend history, the Investment Share price has also exhibited similar volatility. For example, in the past 12 months, the Investment Share price has fluctuated between \$2.10 and \$2.65, but was as high as \$8.00 in May 2014.

Share Standard

The following changes are proposed to be made to the Share Standard under the Proposal:

- The Share Standard is being increased by a factor of four.
- The Minimum Purchases Amount before the Share Standard applies is being increased to \$1,000 (although existing Shareholders whose spend is between \$500 and \$999 will be unaffected until they exceed \$1,000, at which point they will become bound by a Minimum Purchases Amount of \$1,000).
- The Share Standard will be based on a three-year average of Qualifying Expenditure rather than the previous year's expenditure, as is currently the case.
- Shareholders will not be required to sell down Shares held in excess of the Share Standard.
- Shareholders whose Qualifying Expenditure in the most recent year is above, but whose three-year average is below, the Minimum Purchases Amount, will be allowed (but not obligated) to buy Shares.
- A compliance window is being introduced to allow Shareholders required to share up time to acquire the necessary Ordinary Shares on-market. If any Shareholder fails to do so, LIC will do this on behalf of that Shareholder by acquiring the relevant Shares in the manner described on the previous page and charging their LIC debtor accounts with LIC the purchase price and any associated costs, or alternatively issuing new Shares to the Shareholder.
- The Share Standard will apply subject to bands, to allow some flexibility in customer purchases in any season without the purchase resulting in the Shareholder having to purchase additional Shares to meet the Share Standard.

These changes are described in more detail below.

Increased Share Standard

The Share Standard is being increased so that it captures the share capital currently represented by Co-operative Control Shares plus the additional capital which the Proposal requires Co-operative Control Shareholders to pay up on their Nil Paid Shares over time. This additional capital is the capital that will be paid up from future LIC dividends.

To give customers ongoing certainty around the number of Ordinary Shares they must hold for a given level of Qualifying Expenditure, the Share Standard will be expressed in terms of the dollar value of goods and services to which ownership of an Ordinary Share (as opposed to amount paid on that Share as is currently the case) entitles the Shareholder. As a result of the increase in the Share Standard and this change, the Share Standard will change from One Co-operative Control Share (with a nominal value of \$1) for each \$25 of Qualifying Expenditure to one Share for every \$6.25 of Qualifying Expenditure.

For example, a Shareholder with a Qualifying Expenditure of \$10,000 is currently required to hold \$400 worth of Co-operative Control Shares, being 400 Shares. From Implementation, a Shareholder with a Qualifying Expenditure of \$10,000 will now be required to hold 1,600 Ordinary Shares. While this is higher than the existing Share Standard, the Proposal will not, on Implementation, require current Shareholders to invest any additional capital. The reason for this is that Nil Paid Shares issued as part of the Proposal will be considered to satisfy the Share Standard¹².

New customers and Shareholders increasing their Qualifying Expenditure in the 2017/2018 season will need to share up based on the current Share Standard before the new Share Standard comes into effect. See the *Implementation Timetable for the Proposal* section on page 9 of this document for more details.

Any Investment Shares which are reclassified into Ordinary Shares as part of the Proposal may also be used to meet the Share Standard.

Minimum Purchases Amount

As part of the Proposal, the Minimum Purchases Amount will be increased from \$500 to \$1,000. The existing Minimum Purchases Amount threshold has been in place since 2002 and the Board believes it is appropriate to increase it given the costs and administration requirements associated with holding such a small parcel of Shares.

Existing customers of LIC who currently do not meet the proposed higher Minimum Purchases Amount will be unaffected by the increase in the Minimum Purchases Amount threshold. This means any Shareholders whose Qualifying Expenditure is currently between \$500 and \$999 will be exempt from having to comply with the new Minimum Purchases Amount standard in order to hold their existing Ordinary Shares, provided they continue to meet the existing \$500 Minimum Purchases Amount threshold. Once their Qualifying Expenditure exceeds \$1,000, they will be bound to a \$1,000 Minimum Purchases Amount.

A new customer may apply to become a Shareholder once they exceed the Minimum Purchases Amount in any season.

Move to a Three-Year Average

Under the Proposal, the Share Standard will be based on a three-year average of Qualifying Expenditure rather than exclusively on the previous year's Qualifying Expenditure as is currently the case. The three-year average will be relevant in relation to the obligation to meet the Share Standard for any season commencing from the 2017/2018 season. This removes any immediate obligation for a Shareholder to trade at, or soon after, launch of the new arrangements.

For new farmers joining LIC, or Shareholders increasing their Qualifying Expenditure, it will take up to three years for the Share Standard to fully reflect the spend, thereby allowing the Shareholder to spread their Share purchases over that same period.

Shareholders will not be Required to Sell Down Shares Held in Excess of the Share Standard

From Implementation, Shareholders will not be required to sell Shares held in excess of the Share Standard but may sell those surplus Shares on or off market if they wish (except for Nil Paid Shares which must first be paid in full).

12. Existing Shareholders may still be required to share up to the current Share Standard by reference to their Qualifying Expenditure in the 2017/2018 season. This sharing up process will be undertaken before the new share standard comes into effect and Nil Paid shares are issued.

Introducing Bands

To avoid the need for Shareholders to purchase a small number of Shares to reach the new Share Standard each year in circumstances where there is a small change in the customer's Qualifying Expenditure, the Proposal introduces bands.

Qualifying Expenditure will be measured in uniform \$5,000 bands¹³, meaning Shareholders will not need to adjust their Shareholdings, unless there has been a material change in their spending with LIC (i.e. unless the Shareholder passes through the upper end of the relevant band).

For example, if a Shareholder's spend changes from \$5,000 in one year to \$7,000 in the next year, the Shareholder will not need to buy additional Shares. In this example, they will only be required to buy further Shares if their spending increases to \$10,000 or more.

The primary advantage of banding is that it reduces the number of purchases Shareholders have to make, and makes it easier for the Shareholders to predict their required LIC Shareholding each year.

Compliance Date

Under the Constitution, LIC is required every year to notify Co-operative Control Shareholders by 15 July, or as soon as reasonably practicable thereafter, how many Co-operative Control Shares they are required to subscribe for, for them to meet the Share Standard. Such Shares are subscribed for and issued each year as part of the Annual Update. Compliance is determined by reference to Qualifying Expenditure in the preceding season ending 31 May.

Under the Proposal, Shareholders will continue to be notified as soon as practicable after 15 July in any year how many Ordinary Shares they need to hold and will have until 15 October in that year to purchase such number of Ordinary Shares to meet the Share Standard. This provides Shareholders with a trading window to share up after notification.

LIC may automatically "share up" on behalf of Shareholders insofar as required to comply with the Share Standard, should Shareholders fail to do so themselves. Refer to the information on page 23 under the heading *NZAX Listing and Share Trading of Fully Paid Ordinary Shares* for more information on this process.

Shareholding and Voting Restrictions

- At present, the LIC Constitution includes two caps on its shares. The first cap is a 5% ownership cap, which is applicable to Investment Shares only. The second is a 1% voting cap required by DIRA which applies to both Co-operative Control Shares and Investment Shares.
- Under the Proposal, the 5% ownership cap would remain and, if relevant, would override the requirement to hold a greater number of Shares to meet the Share Standard. Given current shareholding levels, the Proposal is not expected to result in any Shareholder breaching this 5% ownership cap.

LIC has engaged with the Minister of Agriculture to seek to remove the 1% voting cap but the relevant amendment has not yet passed through the legislative processes. It is not clear if or when this requirement will be removed from the law. If adopted, the New Constitution will see the 1% voting cap fall away if and when the law is changed.

Changes to LIC's Constitution

The Proposal will result in a substantial number of changes to LIC's Constitution. In broad terms, most of the changes are consequential – that is, they reflect the key elements of the Proposal described above and elsewhere in this document.

In addition to these consequential changes, changes have also been made to increase the flexibility of the Board's decision-making ability with respect to changes to the Share Standard, Minimum Purchases Amount and Qualifying Products and Services. The changes are described in more detail on page 45 of this document. The Board has looked at other co-operatives and the proposed changes broadly replicate the flexibility that these other companies have in their own constitutions.

The proposed amendments to the Constitution would also give LIC the necessary flexibility to migrate from NZAX onto the NZX Main Board in the future, if required. The NZX is currently consulting on some proposed changes to its licensed markets, which would consolidate its existing key equity markets into a single market.

Ministerial consent is required for these changes to proceed.

13. Other than the initial \$1,000 to \$4,999 band.

Dividends

The Proposal contemplates that dividends will be paid equally on all Shares after Implementation (regardless of whether or not the Shares are fully paid up). Dividends will be determined by the Board applying normal commercial principles. LIC will make dividend payments to Shareholders based on LIC's profitability and balance sheet position at the time of the proposed dividend, having regard to the future investment plans of LIC.

On implementation of the Proposal, each Co-operative Control Share will be reclassified into one fully paid Ordinary Share, and each nil paid Co-operative Control Share will be reclassified into a nil paid Ordinary Share. Any dividends paid on Nil Paid Shares and on any Ordinary Shares required to be held to satisfy the Share Standard will be applied to repay the outstanding commitments on Nil Paid Shares. Shares will be paid up incrementally (so that the amount due on account of any dividend is used to fully pay up such number of Shares as can be paid up) as opposed to the dividend being applied pro rata to all outstanding Nil Paid Shares.

Customers can apply dividends on any additional Ordinary Shares they own to pay up the Nil Paid Shares. They can also make additional payments if they wish to pay up the Nil Paid Shares sooner. Shareholders will need to give notice to LIC in writing if they wish to exercise these rights.

For example, consider a Shareholder who is required to hold 1,000 Ordinary Shares under the Share Standard but in fact holds 1,200 Ordinary Shares. Of those Ordinary Shares, 600 Shares are Nil Paid Shares, with the full \$600 outstanding. If in a particular year LIC declared a dividend which, net of imputation credits and resident withholding tax, is equal to \$0.20 per Share, the Shareholder would be entitled to a net dividend of \$240 in total. The dividend attributable to the 1,000 Shares held to satisfy the Share Standard (\$200), must be used to pay for the outstanding amount on the Nil Paid Shares. This dividend would be used to pay up and fully discharge the liability on 200 Nil Paid Shares leaving 400 unpaid. The residual \$40 dividend could be retained by the Shareholder or used to pay up a further 40 Nil Paid Shares.

How will the Proposal be Implemented?

Implementation of the Proposal, if approved by Shareholders, will take place in July 2018 as part of the 2018 Annual Update (except for Resolution 2(a) which will come into effect immediately). In summary:

- Co-operative Control Shareholders will be subject to the normal annual adjustments to their shareholdings, by reference to Qualifying Expenditure in the 2017/2018 season and the current Share Update.

- The Proposal will be implemented immediately after the conclusion of the 2018 Annual Update. The detailed Implementation steps are set out on page 22.
- Investment Shares will continue to trade on the NZAX platform until a date shortly before the 2018 Annual Update.

Details of the exact timing of the Implementation are set out in the Implementation Timetable for the Proposal on page 9. Any changes to the Implementation Timetable will be Announced to the Shareholders.

Governance of LIC and Representation of Farmers

The Proposal does not involve any change to the governance structure of LIC or the representation of farmers by the Shareholder Council, except that, from Implementation, all Shares will carry the right to vote.

Board of Directors

Board will consist of no more than ten Directors, comprised of:

- up to seven elected Directors who are Qualifying Customers elected by the Ordinary Shareholders within the region each Director represents (four regions in total); and
- up to a further three appointed Directors. Appointed Directors are independent and subject to the prior approval of the Shareholder Council and ratification by Ordinary Shareholders.

Elected Directors serve a four-year term and appointed Directors up to a three-year term. Retiring Directors are eligible for re-election or re-appointment.

Shareholder Council

The Shareholder Council will consist of up to twenty-one Councillors. Each of the twenty-one wards will be represented by one Councillor who is elected by the Ordinary Shareholders of that ward.

Councillors serve a four-year term. Councillors retire subject to the rotation schedule and upon retiring are eligible for re-election.

Qualifying Expenditure

The Proposal includes flexibility for the Board to change the Qualifying Products and Services from time to time in consultation with the Shareholder Council, and to allow Subsidiaries (eg LIC Agritechnology Company Limited) to supply Qualifying Products and Services directly to Shareholders but have the associated expenditure classed as Qualifying Expenditure. Those products and services supplied by the Company or any Subsidiary that are identified by the Company in its Conditions and Service Rules as “Qualifying Products and Services” will count towards Qualifying Expenditure.

Taxation Implications for NZ Resident Shareholders

Tax ruling

LIC has obtained a binding ruling from Inland Revenue concerning the Proposal. Inland Revenue has ruled that:

- the issue of Nil Paid Shares as part of the Proposal, and the Reclassification of Co-operative Control and Investment Shares into Ordinary Shares, will not give rise to a dividend to Shareholders; and
- any revenue account Shareholders will not be treated as deriving income as a consequence of the Reclassification.

Tax on sale or disposal of Ordinary Shares

Following the Reclassification, unlike the current Co-operative Control Shares which have a nominal value, the value of the new, single class of Ordinary Shares will fluctuate. The tax treatment in respect of the Ordinary Shareholders will be the same as the existing treatment of the Investment Shares. Shareholders will not be subject to tax on any gain (or allowed to deduct any loss) arising from the sale or disposal of additional Ordinary Shares acquired on the NZAX after the restructuring unless a Shareholder:

- acquires the Shares as part of a profit-making undertaking or scheme; or
- acquires the Shares with the dominant purpose of selling them.

Shareholders will also not be subject to tax on any gain (or allowed to deduct any loss) arising from the sale or disposal of Ordinary Shares received as part of the Proposal in replacement for Investment Shares held prior to the Reclassification (i.e. Investment Shares that are Reclassified as Ordinary Shares as part of the Proposal) unless:

- acquired as part of a profit-making undertaking or scheme; or
- acquired with the dominant purpose of selling them.

In addition, Shareholders will be subject to tax on any gain (or allowed to deduct any loss) arising from the sale or disposal of any Ordinary Shares if the relevant Shareholder is in the business of dealing in shares.

Distributions received from LIC on Ordinary Shares

Distributions received from LIC on Ordinary Shares will generally be taxable dividends for New Zealand tax purposes. Some distributions received from LIC may not be taxable dividends (for example, non-taxable bonus issues and certain returns of capital).

New Zealand operates an imputation regime under which any income tax paid by LIC gives rise to credits, known as imputation credits, which may be attached to dividends it pays. Imputation credits attached to dividends may be used by Shareholders to offset their tax liability in respect of the dividends. The maximum ratio at which LIC can attach imputation credits to dividends is 28:72 (that is, \$28 of imputation credits to \$72 of cash dividend).

LIC will generally be required to deduct resident withholding tax (RWT) from dividends it pays to Shareholders. Currently, the rate of RWT on dividends is 33%, less the amount of imputation credits attached to the dividend. Accordingly, where imputation credits are attached to dividends at the maximum permitted ratio (that is, the dividends are fully imputed), RWT equal to 5% of the gross dividend (that is, cash plus imputation credits) will be deducted. Where dividends are partially imputed, the amount of RWT deducted will be greater than 5% of the gross dividend. Shareholders will be entitled to a credit against New Zealand income tax liability for the amount of RWT deducted. LIC will not deduct RWT from dividends received if a Shareholder holds a current RWT exemption certificate and have provided a copy of that certificate to LIC before the dividend is paid.

The tax treatment of dividends described above will apply equally to dividends that must be used to pay up a call on unpaid Shares received as part of the Reclassification. Such dividends will, like other dividends, be included in a Shareholder’s assessable income, with a credit allowed for attached imputation credits and RWT deducted. The cash dividend, net of imputation credits and RWT, will be applied in satisfaction of the call.

Overview of the Structure Post Reclassification

	CONSIDERATION	CHANGE?	FURTHER DETAILS
Share Standard	Share Standard quantified	Yes	<p>Pre Reclassification: \$1 of Share capital for each \$25 of Qualifying Expenditure.</p> <p>Post Reclassification: 1 Ordinary Share for each \$6.25 of Qualifying Expenditure.</p> <p>Note:</p> <ul style="list-style-type: none"> Shareholders will have three years to share up; On Implementation (and following the 2018 Annual Update to reflect any increased spend during the 2017/2018 season), all Shareholders will satisfy the new Share Standard; Ordinary Shares Reclassified from Investment Shares will also count for the purposes of the Share Standard.
	Qualifying Expenditure	Yes	Qualifying Expenditure will be measured in uniform \$5,000 bands ¹⁴ rather than a specific amount of expenditure.
	Time period on which the Share Standard is based	Yes	Move to three-year average as opposed to just the prior year.
	Compliance Date for meeting the Share Standard	Yes	<p>Pre Reclassification: 15 July</p> <p>Post Reclassification: 15 October</p>
	Consequence of a Shareholder not sharing up by the Compliance Date	Yes	<p>The Shareholder will have until the Compliance Date to share up after notification of the number of Shares they need to acquire to meet the Share Standard.</p> <p>If the Shareholder does not hold the required number of Shares by the Compliance Date, LIC will seek to acquire the shortfall on behalf of the Shareholder but retains the right to instead issue new Shares to the Shareholder.</p>

14. Except for the initial band between \$1,000 and \$4,999.

Overview of the Structure Post Reclassification

	CONSIDERATION	CHANGE?	FURTHER DETAILS
Share Ownership	Minimum Purchases Amount to be entitled to become a Shareholder	Yes	The Minimum Purchases Amount threshold will increase from \$500 to \$1,000, although existing Shareholders will be unaffected, as explained on page 25.
	Date from which new customers can buy their Shares	Yes	As soon as the customer passes the Minimum Purchases Amount threshold, they can apply to be a Shareholder and can buy Shares, provided they meet all other Shareholder requirements (which are not changing).
	Period for exiting customers to sell their Shares	Yes	Shareholders will not be required to sell their Shares unless they cease to spend the Minimum Purchases Amount (except for existing Shareholders below that threshold who will be unaffected) or are no longer a supplier to a New Zealand milk processor. Exiting Shareholders will be given until 15 October in the second year after the end of the relevant season (i.e. approximately 16 and a half months after the end of the season in which they did not spend the Minimum Purchases Amount) to sell their Shares.
	Consequence of an exiting Shareholder not selling their Shares within the required period	No	LIC will be entitled to sell the Shares on-market on the Shareholder's behalf. LIC retains the rights to buy back such Shares instead.
Share Trading	Shares will be listed on NZAX	Yes	Previously, only the Investment Shares were listed. The new Ordinary Shares will be listed instead.
	Sourcing of Shares	Yes	Share purchases will be sourced from the market or from a Shareholder looking to sell its Ordinary Shares at the prevailing market price. LIC reserves the right to issue new Ordinary Shares.
Dividend	Dividend entitlement	Yes	All Shares will have an equal dividend entitlement. 100% of dividends received on Nil Paid Shares and any Ordinary Shares held to meet the Share Standard must be applied in paying up outstanding obligations on Nil Paid Shares.
Voting / Ownership restrictions	Voting restrictions	Yes	Retain 1% cap only while the relevant provisions of DIRA remain in force. If the restriction is removed from DIRA in the future, the 1% voting restriction will no longer apply to LIC Shareholders but they will still be subject to the ownership restriction described below.
	Ownership restrictions	No	Retain 5% cap but this is applied across all Relevant Interests.

SECTION B:

Notice of Special Meeting

Notice is given that a special meeting of the Shareholders of Livestock Improvement Corporation Limited will be held at LIC's Tempero Centre, Cnr. Ruakura and Morrinsville Roads, Newstead, Hamilton on Wednesday 14 March 2018 commencing at 10.30 am, with registration from 9.30 am.

The business of the meeting will be to consider and, if thought fit, to resolve the Resolutions set out below. Resolutions 1 and 2 are inter-conditional, meaning that both of them must be passed in order for either of them to be effective. See *Explanation of the Resolutions and Additional Information* on pages 36 to 39 for further information about these Resolutions.

Resolutions

Resolution 1:

To increase the Share Standard, issue new nil paid Co-operative Control Shares and subdivide the Investment Shares

As an **ordinary** resolution to be passed by eligible holders of Co-operative Control Shares:

"That, the Co-operative Control Shareholders confirm and approve in each case:

- a. that the Co-operative Control Shareholding Requirement be increased by a factor of four for the purposes of implementing the Proposal;
- b. that the Company issue to Co-operative Control Shareholders such number of Co-operative Control Shares as required to meet the new Co-operative Control Shareholding Requirement, on a nil paid basis; and
- c. that each Investment Share be subdivided into four Investment Shares,

each in accordance with the Implementation Timetable, and subject to the passing of Resolution 2, and the approval by the Minister of Agriculture of the proposed changes to the existing Constitution."

Resolution 2:

To amend the existing Constitution, reclassify Shares as Ordinary Shares and adopt New Constitution

As a **special** resolution to be passed by separate interest groups comprising the eligible holders of Co-operative Control Shares and eligible holders of Investment Shares:

"That, the Shareholders confirm and approve in each case:

- a. that the existing Constitution be amended by adding a new clause 3.12 reading as follows:

the Company may alter the rights attaching to Shares provided that it has been approved by a special resolution of each interest group in accordance with section 117 of the Companies Act, and it does not matter whether or not the special resolution was passed before or after this provision came into effect;

- b. the Reclassification of each Co-operative Control Share into an Ordinary Share;
- c. the Reclassification of each Investment Share into an Ordinary Share; and
- d. the revocation of the existing Constitution of the Company (as amended from time to time) and the adoption of a new Constitution by the Company in the form tabled at the meeting and signed by the Chairperson for the purpose of identification,

each in accordance with the Implementation Timetable, and subject to the passing of Resolution 1, and the approval by the Minister of Agriculture of the proposed changes to the existing Constitution."

Eligibility to Vote and Required Approvals

All Shareholders are entitled to attend the Special Meeting.

The below table sets out who is eligible to vote on the Resolutions, and what voting thresholds and conditions need to be met for the Resolutions to be passed. If the Proposal is approved, it will be binding on all Shareholders, whether they voted for the Resolution or not and all Shareholders will be deemed to have made an application in respect of the Reclassification.

	RESOLUTION 1	RESOLUTION 2
Type of resolution and approval threshold	Ordinary resolution to be passed by a majority (50% plus one Share) of Co-operative Control Shareholders entitled to vote and voting	Special resolution to be passed by: <ul style="list-style-type: none"> • 75% of Co-operative Control Shareholders entitled to vote and voting; and • 75% of Investment Shareholders entitled to vote and voting
Who is entitled to vote?	Co-operative Control Shareholders only	Co-operative Control Shareholders and Investment Shareholders
Conditionality	Conditional on the approval of Resolution 2 Conditional on the approval by the Minister of Agriculture of the proposed changes to the existing Constitution	Conditional on the approval of Resolution 1 Conditional on the approval by the Minister of Agriculture of the proposed changes to the existing Constitution

How to cast a vote

Co-operative Control Shareholders and Investment Shareholders have separate rights to vote. The matters in respect of which each of them may vote are set out above, and in the Voting Form.

Shareholders can vote in the following ways:

1. **Attend the Special Meeting** – bring your Voting Form to the meeting as the barcode is required to assist with your registration; or
2. **Electronic voting** – visit www.electionz.com/LIC2018 and follow the prompts. You will require your PIN and Password as shown on your Voting Form. Electronic voting will close at 10.30 am on 12 March 2018; or
3. **Postal voting** – complete the Postal Vote section of the Voting Form and return it in the reply paid envelope provided to electionz.com Limited or address to electionz.com Limited as per the details provided at the bottom of this section. Your form must be received before 10.30 am on 12 March 2018; or
4. **Appoint a Director or Councillor of LIC, or another person as your proxy** – complete the proxy appointment section on the Voting Form including how you wish them to vote (as a directed vote) or as “Proxy’s Discretion” and return in the reply paid envelope provided to electionz.com Limited before 10.30 am on 12 March 2018. Your appointed Director/Councillor/Representative will receive voting papers upon registration at the meeting.

Each method of voting and the way to use the Voting Form enclosed with this document are explained in detail below.

Please choose only one voting option.

Full details on how to return your Voting Form to electionz.com Limited are available at the end of this section.

1. To attend and vote at the Special Meeting

You must register at the registration desk prior to entering the meeting. Please bring your Voting Form with you, as the barcode is required for your registration.

The registration and poll will be managed by electionz.com.

Upon registration, if you have not already submitted an electronic or postal vote, or appointed a proxy, you will receive a separate voting card to mark your vote at the time that each poll is put to the meeting by the Chairman. Once the voting is completed, electionz.com Limited will collect your voting cards from you.

2. To vote electronically

If you wish to cast your vote electronically:

- a. Visit www.electionz.com/LIC2018
- b. Enter your PIN and Password as shown on your Voting Form.
- c. Follow the prompts to complete your vote.

Electronic voting will close at 10.30 am on Monday 12 March 2018.

3. To cast a postal vote

If you wish to cast a postal vote, complete the Postal Vote section on your Voting Form, indicate how you wish to vote on each Resolution and return the form to electionz.com Limited in any manner described at the bottom of this section.

4. **To appoint a Director or Councillor of LIC, or another person, to attend the meeting and vote on your behalf as your proxy**

If you wish to appoint a Director or Councillor of LIC or any other person as your proxy, you need to complete the proxy section on your Voting Form. A proxy need not be a shareholder of LIC.

Please read the information on "Proxy Appointment" on the reverse of your Voting Form carefully. In the area provided, please insert the name of the Director, Councillor or other person you wish to appoint. Use the voting boxes to indicate how you wish your proxy to vote. Alternatively indicate "Proxy Discretion".

If you return the Proxy section of the Voting Form without indicating how you wish your proxy to vote, your proxy will vote, or abstain from voting, as he or she sees fit. If you indicate on the Voting Form how you wish your proxy to vote, your proxy will vote as directed.

Any Director or Councillor of LIC who is appointed as a proxy and is given discretion as to how to vote will vote in what he or she believes to be the best interest of LIC.

Please advise your proxy that he or she must register at the registration desk prior to entering the meeting to obtain the necessary voting papers.

The proxy appointment section of the Voting Form must be completed, signed and received by electionz.com Limited no later than 10.30 am on 12 March 2018.

If you are a postal voter or appointing a proxy, return your Voting Form to electionz.com Limited in any of the following ways:

- **mail** to electionz.com Limited in the reply paid envelope provided; or
- **address and mail** to Livestock Improvement Corporation Limited, PO Box 3138, Christchurch 8140; or
- **deliver** to electionz.com Limited, 3/3 Pukaki Road, Yaldhurst, Christchurch 8042; or
- **fax** to 03 377 1474 ; or
- **scan and email** to info@electionz.com (please put the words "LIC Meeting" in the subject line for easy identification).

Alternatively vote electronically as per the instruction in the *To Vote Electronically* on the previous page.

If you are not attending and voting at the Special Meeting, your electronic vote must be cast or your Voting Form must be received by electionz.com Limited no later than 10.30 am on 12 March 2018 to be valid.

The Board has appointed Melanie Tonkin as the Returning Officer. She has authorised electionz.com Limited to receive, record and count all postal votes, electronic votes and proxy votes.

If you have any questions regarding the voting, please contact the Election Helpline on 0800 666 033.

All persons attending the Special Meeting must register at the registration desk prior to entering the meeting room.

Multiple herd owners are reminded that to fully exercise their voting rights, they need to separately exercise the votes for each participant code.

Explanation of the Resolutions and Additional Information

Resolution 1: To increase the Share Standard, issue new nil paid Co-operative Control Shares and subdivide Investment Shares

Resolution 1 proposes that Shareholders confirm and approve:

- that the Co-operative Control Shareholding Requirement be increased to an equivalent of 16% of Qualifying Expenditure;
- the issue of such number of nil paid Co-operative Control Shares as is required to ensure that Co-operative Control Shareholders meet the new Share Standard; and
- the subdivision of each Investment Share into four Investment Shares.

Constitution

The existing Constitution of the Company allows the Company to change the Share Standard by Ordinary Resolution of Shareholders. Currently, only the Co-operative Control Shareholders have the right to vote on this Resolution.¹⁵

The Constitution coupled with the Companies Act gives the Board the power to issue Shares to Shareholders and to subdivide the Company's Shares, but notwithstanding this, we are presenting this resolution to Shareholders as part of the process for seeking overall approval for the Proposal.

In accordance with LIC's Constitution, no person may exercise, or control the exercise of, more than 1% of the maximum number of votes that may be exercised at a meeting of LIC.

Companies Act

Section 105 of the Companies Act provides that an ordinary resolution must be approved by a simple majority of the votes of those Shareholders entitled to vote and voting on the resolution. To approve Resolution 1, 50% plus one vote of the Co-operative Control Shareholders entitled to vote and voting on that Resolution must be cast in favour of the Resolution.

15. The Investment Shareholders are entitled to vote on resolutions where the proposed resolution directly affects any rights or privileges attached to the Investment Shares. The Board is of the view that the proposed subdivision of the Investment Shares will not affect the rights of the Investment Shareholders and their entitlements will remain unchanged. Accordingly, only the Co-operative Control Shareholders will be entitled to vote on this Resolution.

Resolution 2: To amend the Constitution, reclassify Shares as Ordinary Shares and adopt the New Constitution

Resolution 2 proposes that Shareholders confirm and approve:

- a new provision be included in the Constitution permitting the alteration of rights attaching to Shares with the approval of a special resolution of each interest group;
- alteration of the rights attaching to the Shares by reclassifying the Co-operative Control Shares and Investment Shares into Ordinary Shares; and
- revocation of the existing Constitution and adoption of the New Constitution.

Constitution

The proposed changes to the Constitution have been approved by NZX. A summary of the proposed changes to the Constitution is set out at page 45.

A copy of the existing Constitution, a clean copy of the proposed New Constitution and a marked copy showing all changes made to the existing Constitution by the proposed New Constitution may be viewed on the Company's website: www.lic.co.nz/vote. The Listing Rules may be viewed on the NZX website: www.nzx.com.

In accordance with LIC's Constitution, no person may exercise, or control the exercise of, more than 1% of the maximum number of votes that may be exercised at a meeting of LIC.

The changes to the Constitution are subject to Ministerial consent.

Companies Act

Under the Companies Act, LIC must not take any action which affects the rights attached to Shares, unless that action has been approved by a special resolution of each interest group of LIC. For the purposes of section 117 of the Companies Act, the rights attached to Shares include voting rights and rights to distributions. Therefore, both the proposed Reclassification of the Shares and the adoption of the New Constitution, will require approval by each interest group.

There are two interest groups in LIC for the purposes of section 116 of the Companies Act:

- Co-operative Control Shareholders; and
- Investment Shareholders.

To approve Resolution 2, at least 75% of the votes of Shareholders in each interest group entitled to vote and voting on that Resolution must be cast in favour of the Resolution.

Listing Rules – Waivers, Rulings, and Approvals

LIC has obtained a number of waivers, rulings, and approvals from the Listing Rules from the NZX, as described below. These waivers, rulings and approvals are conditional on the Proposal being approved.

- **Listing Rule 1.6.1:** A waiver has been obtained to allow the definition of “Renounceable” to refer to a right or offer that is transferable by any Shareholder to another person entitled to hold the securities (rather than any person). This reflects the ownership restrictions on Shares, as a result of the co-operative nature of LIC.
- **Listing Rules 3.2.2, 3.2.3 and 3.2.6:** Waivers have been granted to allow LIC to continue to operate its director nomination (including restrictions on who may be nominated) and rotation, each in accordance with the New Constitution.
- **Listing Rule 7.3.11(c):** A ruling has been granted to allow LIC to issue new Shares to a Shareholder in order to ensure they meet the Share Standard. The waiver treats the Share Standard as the “Minimum Holding” requirement for LIC for the purposes of the Listing Rules.
- **Listing Rule 7.6.3:** A waiver has been granted to allow LIC to provide financial assistance to the “Approved Holding Entity” under the New Constitution. The Approved Holding Entity acquires Shares in LIC on behalf of Shareholders in administering a voluntary investment scheme or dividend reinvestment plan approved by the Board.
- **Listing Rule 7.6.9:** A ruling has been granted to allow LIC to buy back Shares from an exiting Shareholder as a “routine buyback”.
- **Listing Rule 8.1.3:** A waiver has been granted to allow the Nil Paid Shares to carry full voting rights. Without this waiver, the Nil Paid Shares could only carry voting rights in proportion to which the Share is paid up.
- **Listing Rule 8.2.1:** As LIC is a non-standard issuer, a ruling has been granted that allows LIC a more extensive lien over the Shares than would otherwise be the case. This is because the lien secures all monies owing to LIC.
- **Listing Rule 11.1.5:** Approvals have been granted to certain restrictions on the issue, acquisition or transfer of Shares. For the most part, these relate to the co-operative nature of LIC and the fact that only Qualifying Customers can hold Shares (other than a limited pool of Shares available to employees under the employee share scheme).

Minority Buy-out Rights

Sections 110 and 118 of the Companies Act grant minority buy-out rights to any Shareholders who vote all of their Shares against a special resolution approving any matter that affects the rights attaching to shares. Resolution 2 affects the rights attaching to Co-operative Control Shares and to Investment Shares, and so minority buy-out rights will be available to those Shareholders voting against Resolution 2.

Exercising Buy-out Rights

A Shareholder who wishes to exercise those minority buy-out rights must cast all votes attached to Shares registered in the Shareholder’s name and having the same beneficial owner, against Resolution 2.

If a Shareholder votes all of their Shares against Resolution 2 but it is nevertheless approved, in order to exercise minority buy-out rights, the Shareholder must, within 10 Business Days of the passing of Resolution 2, give written notice to LIC that the Shareholder requires LIC to purchase the Shareholder’s Shares. This notice will apply to all Shares held by the Shareholder.

LIC must, within 20 Business Days of receipt of such notice:

- agree to the purchase of the relevant Shares; or
- arrange for some other person to agree to purchase the relevant Shares; or
- apply to the court for an order exempting LIC from the obligation to purchase the Shares, on the grounds that the purchase would be:
 - disproportionately damaging to LIC; or
 - that LIC cannot reasonably be required to finance the purchase; or
 - it would not be just and equitable to require LIC to purchase the Shares; or
- arrange for Resolution 2 to be rescinded by another special resolution of Shareholders, or decide in the appropriate manner not to take the action concerned, as the case may be; and
- give written notice to the Shareholder of the Board’s decision as to which of the above actions it will take.

Where LIC agrees to purchase the Shares, it must, within 5 Business Days after the written notice of LIC's decision in the preceding paragraph, give written notice to the Shareholder, setting out the price (or prices, in the case of Shares of different classes) the Board offers to pay for the Shares and certain information relating to how the price was calculated.

Co-operative Control Shares

The price payable for a Co-operative Control Share will be calculated in accordance with section 22 of the Co-operative Companies Act 1996 and the Constitution. Together, they provide that the price may be the lower of:

- the nominal value of that Share;
- the amount paid up on the Share; or
- the amount determined under clause 8.3 of the Constitution.

Investment Shares

The price payable by LIC for an Investment Share will be a "fair and reasonable" price, which does not take into account any fluctuation (positive or negative, and whenever occurring) attributable to the proposed Reclassification.

Arbitration

If the Shareholder considers that the price offered is not fair and reasonable, they must within a further 10 Business Days, give written notice of their objection to LIC.

If within 10 Business Days of the Board giving notice to the Shareholder, no objection to the price has been received by LIC, LIC must purchase the Shares at the nominated price:

- on a date agreed between LIC and the Shareholder; or
- if no date is agreed, as soon as practicable.

If the Shareholder objects to the price being offered by LIC:

- the question of what is fair and reasonable must be referred to arbitration; and
- LIC must, within 5 Business Days of receiving the notice of objection pay a provisional price in respect of the Shares equal to the price nominated by the Board.

The arbitration is to be conducted in accordance with the Arbitration Act 1996. The arbitrator must expeditiously determine a fair and reasonable price for the Shares to be purchased. If the price determined by the arbitrator exceeds the provisional price paid by LIC, LIC must immediately pay the balance owing to the Shareholder. If the price determined is less than the provisional price paid by LIC, LIC may recover the excess paid from the Shareholder. The arbitrator may award interest on any balance payable or excess to be repaid. The Arbitration Act preserves the right of an arbitrator to award legal and expert costs and, therefore, both LIC and the relevant Shareholder(s) bear the risk of an adverse cost award in connection with any arbitration if they are unsuccessful.

On-Market Sales as Preferred Remedy

LIC encourages any Investment Shareholders who would wish to exercise minority buy-out rights to consider selling their Investment Shares on-market, rather than exercising their formal rights. That approach is the traditional avenue open to shareholders of listed companies where the shareholder does not agree with the company's direction.



Glossary

Announced means a disclosure to Shareholders made through the market announcement platform for NZAX.

Annual Update means the annual process of adjusting the shareholdings of Co-operative Control Shareholders so that their respective shareholdings meet the Share Standard in respect of the Qualifying Expenditure of each such Shareholder for the preceding season.

Approved Holding Entity has the meaning given to it in the Constitution.

Board means the Directors numbering not less than the required quorum acting together as a board of Directors.

Business Day has the meaning given to “Working Day” in the Companies Act.

Companies Act means Companies Act 1993.

Company, Co-operative or LIC means Livestock Improvement Corporation Limited.

Compliance Date means the date by which Shareholders or new customers are required to share up (or sell down) in relation to any particular year. Under the existing Constitution, this is 15 July of the following year (or as soon as practicable thereafter) and under the Proposal, this will be 15 October of the following year.

Conditions and Service Rules has the meaning given to the term “Service Rules” in the Constitution.

Constitution means the company constitution of LIC.

Co-operative Control Shareholding Requirement has the meaning given to it in the Constitution being shares equivalent to 4% of Qualifying Expenditure as at the date of this document. Under the Proposal, the concept of “Share Standard” is used from Implementation instead of Co-operative Control Shareholding Requirement.

Co-operative Control Shareholder means a Shareholder holding one or more Co-operative Control Shares.

Co-operative Control Shares means Shares having a nominal value and designated as Co-operative Control Shares.

Council or Shareholder Council means the LIC Shareholder Council.

Councillor means a person elected by Shareholders within a ward to represent that ward on the LIC Shareholder Council.

DIRA means the Dairy Industry Restructuring Act 2001.

Directors mean the directors for the time being of the Company.

FMCA means the Financial Markets Conduct Act 2013.

Implementation means the process of the Reclassification.

Implementation Date means the date the Reclassification takes effect in accordance with the Implementation Timetable.

Implementation Timetable means the timetable for the implementation of the Proposal set out on page 9 of this document, as amended from time to time by the Board and Announced to Shareholders.

Independent Adviser means Northington Partners.

Independent Adviser’s Report means the report of Northington Partners dated 9 February 2018, a summary of which is set out on pages 14 to 17.

Information Pack means the suite of documents described on the inside cover of this document.

Investment Shareholder means a Shareholder holding one or more Investment Shares.

Investment Shares means Shares which bear no par or nominal value and which are designated as Investment Shares.

Listing Rules means the NZAX Listing Rules which relate to the NZAX as amended from time to time, and may be a reference to a particular Rule or Rules as specified.

Minimum Purchases Amount has the meaning given in the Constitution.

New Constitution means the constitution of LIC proposed to be adopted pursuant to the Proposal.

Nil Paid Shares means, pre-Reclassification, the nil paid Co-operative Control Shares issued under the Proposal to holders of Co-operative Control Shares or, post-Reclassification, the nil paid Ordinary Shares. These Shares must be paid up over time as explained in this document.

NZAX means the NZX Alternative Market operated by NZX Limited.

Ordinary Shareholder means a Shareholder holding one or more Ordinary Shares.

Ordinary Shares means a share in the capital of the Company which has the rights set out in section 36(1) of the Companies Act.

Proposal means the actions contemplated by the Resolutions, taken together.

Qualifying Customer means any person who satisfies the requirements in the Constitution to become a Shareholder.

Qualifying Expenditure means expenditure on Qualifying Products and Services.

Qualifying Products and Services has the meaning given in the Constitution.

Regulations means the Financial Markets Conduct Regulations 2014.

Reclassification:

- a. means, in relation to each Co-operative Control Share and each Investment Share:
- i. all rights and restrictions conferred on a Share pursuant to its terms of issue will no longer have effect (except for any rights relating to any dividend, distribution, or other entitlement accrued on or before the Implementation Date, which will subsist);
 - ii. the terms on which that Share is issued will be replaced with the terms of issue of an Ordinary Share; and
 - iii. from the Implementation Date, such Share will be an Ordinary Share, and the holder of such Share will be an Ordinary Shareholder who will be conferred all the rights and obligations in respect of an Ordinary Share (other than in respect of any dividend, distribution, or other entitlement that has accrued before the Implementation Date); and
- b. for the avoidance of doubt, does not constitute redemption, cancellation or buy-back of Shares or an issue, allotment or creation of a new Share,

and **Reclassify** shall be construed accordingly.

Relevant Interest has the meaning given to that term in the FMCA.

Resolutions means Resolution 1 and Resolution 2 set out at pages 32 of this document.

Returning Officer has the meaning given in the Constitution.

Roadshow means the Shareholder meetings arranged by LIC for the purpose of discussing the Proposal and the voting process with the Shareholders, the current timetable and venues for which are set out in Schedule 4.

Share Standard means the existing share standard (as defined as the Co-operative Control Shareholder Requirement in the current Constitution) prior to Reclassification; or the new share standard (defined as the Shareholding Requirement in the New Constitution) after Reclassification, as the case may be.

Shares means shares in the Company that have been or may be issued from time to time, including Co-operative Control Shares, Investment Shares, Ordinary Shares and Nil Paid Shares as appropriate.

Shareholder means a person whose name is entered in the register of security holders maintained by the Company as the holder for the time being of one or more Shares.

Special Meeting means the special meeting of Shareholders to be held at LIC's Tempero Centre, Cnr Ruakura and Morrinsville Roads, Newstead, Hamilton on Wednesday, 14 March 2018 at 10.30 am.

Subsidiary means a subsidiary of LIC.

Voting Form means the combined proxy appointment and voting form to be used for the purposes of the Special Meeting.

Additional Notes:

- Percentages in this document have been rounded to the nearest percent.
- Numbers of Co-operative Control Shares and Investment Shares, when referenced as a group, have been rounded to the nearest 100,000.
- References to legislation refer to that legislation as amended from time to time.

SCHEDULE 1

SCHEDULE 1

Summary of Shareholding Rights between Classes

The table below describes LIC's assessment of the principal changes proposed to be made to the Shareholders' rights.

	PRE-RECLASSIFICATION		POST-RECLASSIFICATION
Key Feature	Co-operative Control Shares	Investment Shares	Ordinary Shares
Are the Shares Listed?	No	Yes - on the NZAX	Yes - on the NZAX
How are Shares valued?	Nominal Value of \$1.00	No par or nominal value. Value is set by trading on the NZAX	No par or nominal value. Value is set by trading on the NZAX
Who can hold Shares?	New Zealand dairy farmers who are Qualifying Customers	Investment Shares can only be held by Co-operative Control Shareholders (with some limited exceptions) ¹⁶	New Zealand dairy farmers who are Qualifying Customers (with some limited exceptions) ¹⁷
How many Shares can / must be held?	Based on a share standard	Maximum holding of 5% of Investment Shares on issue	Hybrid of rules for Co-operative Control Shares and Investment Shares: Minimum holding based on a Share Standard (being increased under the Proposal). Maximum holding of 5% of the Ordinary Shares on issue
Are Shareholders required to surrender or sell Shares?	Yes - if shares held exceed the Share Standard at the end of any season they must be surrendered	Yes - if Shareholder ceases to be a Co-operative Control Shareholder they must surrender or sell their Shares within 2 years of no longer being a Co-operative Control Shareholder	Hybrid of rules for Co-operative Control Shares and Investment Shares: Yes - if Shareholder ceases to be a Qualifying Customer, they must sell their Shares by 15 October in the second year after the end of the relevant season
What consideration will Shareholders receive for surrendered Shares?	Generally, an amount equal to the Nominal Value paid	Price set by NZAX	Price set by NZAX
Do voting rights attach to the Shares?	Yes - but maximum voting entitlement capped	No - except in limited circumstances - voting entitlement capped	Yes - but maximum voting entitlement capped at 1% (unless and until DIRA is amended to remove this requirement)
Are Shareholders entitled to Dividends?	Yes - but the maximum entitlement is capped	Yes	Yes
Can Shares be transferred and, if so, to who?	No - except in limited circumstances	Yes - this can be done on-market or off-market and, generally, only between Qualifying Customers ¹⁸	Yes - this can be done on-market or off-market and, generally, only between Qualifying Customers ¹⁹
Can Shares be held by someone else on behalf of a Shareholder?	No - except in limited circumstances	No - except in limited circumstances	No - except in limited circumstances

16. Employees may also hold, in aggregate, up to 5% of the Ordinary Shares.

17. The existing employee share scheme is reserved.

18. The exception being LIC employees to hold Shares through the employee share scheme.

19. As above. The Proposal preserves the existing employee share scheme in its existing form. Nil Paid Shares must be paid up prior to transfer, except in exceptional circumstances approved by the Board.

SCHEDULE 2

SCHEDULE 2

Summary of the Changes to the Constitution

The table below summarises LIC's assessment of the principal changes proposed to be made to the current Constitution. A copy of the New Constitution and a version of the Constitution showing all proposed changes is available at www.lic.co.nz/vote

DESCRIPTION	NEW POSITION	CURRENT POSITION	REASON FOR CHANGE
Share Structure	<p>There will only be a single class of shares – Ordinary Shares.</p> <p>Key features of the Ordinary Shares will be:</p> <ul style="list-style-type: none"> • Listed on NZAX with a market-driven price • Full voting rights • Full economic rights (all dividends and return of capital on liquidation) • 1% voting cap unless and until DIRA is amended to remove this cap <p>Relevant references throughout the Constitution updated to reflect the rights proposed to attach to the Ordinary Shares and remove the rights attaching and references to both Co-operative Control Shares and Investment Shares.</p>	<p>There are two classes of securities: Co-operative Control Shares and Investment Shares.</p> <p>Key features of Co-operative Control Shares are:</p> <ul style="list-style-type: none"> • Nominal value of \$1 • Full voting rights • Economic rights limited to the Priority Dividend (based on the first mortgage lending rate of LIC's principal banks in respect of secured loans made to dairy farmers) and a priority return of capital on liquidation • 1% voting cap <p>Key features of Investment Shares are:</p> <ul style="list-style-type: none"> • Listed on NZAX with market-driven price • No substantive voting rights • Subordinated dividend • Subordinated rights to residual capital in a liquidation 	<p>All current Shares will be reclassified as Ordinary Shares.</p> <p>Details of the reason for the Reclassification are set out at pages 18 to 20.</p>
Minimum Purchases Amount	<p>Under the New Constitution, the Board will be permitted to change the Minimum Purchases Amount from time to time (with the initial amount being as set out below), subject to consultation with the Shareholder Council. Any changes will be set out in the Conditions and Service Rules.</p> <p>The Board has determined that the initial Minimum Purchases Amount will be increased to \$1,000 per season, which will be specified in the Conditions and Service Rules.</p>	<p>The Minimum Purchases Amount is fixed at \$500 per season.</p> <p>Amendments require Shareholder approval by ordinary resolution.</p>	<p>The Board believes that \$1,000 per season is an appropriate Minimum Purchases Amount. The existing Minimum Purchases Amount has not changed since it was introduced in 2002. Any current Shareholders spending less than \$1,000 (approx 1% of all Shareholders) will be grandfathered (see page 25).</p> <p>The Board believes it is sensible to have the flexibility to amend the Minimum Purchases Amount from time to time, without having to amend the New Constitution, whilst recognising the need to be clear for all customers.</p>

DESCRIPTION	NEW POSITION	CURRENT POSITION	REASON FOR CHANGE
Share Standard	<p>Under the Constitution, the Board will be permitted to change the Share Standard and how it is calculated from time to time, subject to consultation with the Shareholder Council. Any changes will be notified in the Conditions and Service Rules.</p> <p>The Board has determined that the initial Share Standard will be increased to one Share for each \$6.25 of Qualifying Expenditure and a banded Share Standard will be introduced, as further described on page 24. Qualifying Expenditure will be measured in uniform \$5,000 bands²⁰.</p> <p>The Share Standard will be measured on the basis of Qualifying Expenditure for a Qualifying Customer on a rolling three-year average basis.</p>	<p>The Share Standard is fixed at an equivalent to 4% of Qualifying Expenditure in the preceding year.</p> <p>Amendments require Shareholder approval by ordinary resolution.</p>	<p>The Board believes it is appropriate to set a higher Share Standard, to effect a greater alignment between ownership in the Company and spend with it. Averaging the Qualifying Expenditure over three years reduces the financial burden of the higher Share Standard by allowing Shareholders to spread their Share purchases over the same period.</p> <p>The Board believes it is sensible to have the flexibility to amend the Share Standard from time to time, without having to amend the New Constitution, whilst recognising the need to be clear for all customers.</p>
Maximum Holding	Ordinary shareholding capped at 5%.	Investment shareholding capped at 5%.	Consequential change from the Reclassification. The largest shareholding immediately following the Reclassification is anticipated to be 2.2%.
New customers	<p>A new customer may apply to become a Shareholder once they exceed the Minimum Purchases Amount in any season.</p> <p>Once a customer's average expenditure on Qualifying Products and Services over the three preceding seasons exceeds the Minimum Purchases Amount, they will be deemed to have made an application to become a Shareholder and they must hold the Share Standard on the Compliance Date.</p> <p>No Shares are acquired on behalf of a Qualifying Customer, except where a Qualifying Customer fails to meet the Share Standard on the Compliance Date (see page 26).</p>	<p>A new customer may apply to become a Shareholder (and will be deemed to have applied to become a Shareholder) once they have exceeded the Minimum Purchases Amount in any season and are notified of this by LIC.</p> <p>The new customers will then be issued Co-operative Control Shares to ensure they meet the Share Standard. That issuance will occur following the close of the Season during which that shareholder exceeds the Minimum Purchases Amount.</p> <p>The Co-operative Control Shares are issued at the nominal value at the time of issuance (currently \$1 each).</p>	<p>Consequential change from the Reclassification and the decision to set the Share Standard based on three-year average spend on Qualifying Products and Services.</p> <p>The Board believes it is sensible to allow a new customer to apply to be a Shareholder as soon as they exceed the Minimum Purchases Amount – this is consistent with the existing arrangement.</p>

20. Except for the initial band which will apply from \$1,000 to \$4,999.

DESCRIPTION	NEW POSITION	CURRENT POSITION	REASON FOR CHANGE
Compulsory acquisition of Shares for existing Shareholders	<p>At the end of the Season, the Company will notify each Shareholder of its existing holdings and any additional Shares required to meet the Share Standard.</p> <p>Shareholders must then acquire such number of additional Shares to ensure they meet the Share Standard by the Compliance Date (currently set as 15 October).</p> <p>If a Shareholder does not hold the Share Standard by the Compliance Date, the Company will acquire the shortfall on behalf of the Shareholder or issue new Shares to the Shareholder in which case the Shareholder will be deemed to have applied. Details of the acquisition process are set out at page 26.</p>	<p>Following the issue of Shares under the Annual Update, the Company sends each Shareholder an annual statement.</p> <p>Where a Shareholder holds fewer Co-operative Control Shares than the Share Standard on the Compliance Date (currently, the Board issues the additional Shares to that Shareholder as part of the Annual Update).</p>	<p>Moving to a market-traded Share for the Share Standard, rather than the current Co-operative Control Shares, means that Shareholders have the opportunity to determine how and when to acquire Shares to meet the Share Standard by the Compliance Date.</p> <p>The Compliance Date has been pushed back following the end of each season to allow Shareholders more time to acquire any necessary additional shares on market.</p>
Compulsory disposal of shares	<p>Shareholders will not be required to sell their Shares unless they cease to spend the Minimum Purchases Amount in any season or fail to meet other Qualifying Customer criteria. They must then sell their Shares by 15 October in the second year after the end of the relevant season (i.e. approximately 16 and a half months after the end of the season in which they did not spend the Minimum Purchases Amount).</p> <p>If a Shareholder has not sold their Shares by that point, the Company will be entitled to sell their Shares on the Shareholder's behalf.</p> <p>(An exception to this applies for any Shareholder who, at the Implementation Date, met the previous Minimum Purchases Amount and continues to do so.)</p>	<p>Excess Co-operative Control Shares must be surrendered at nominal value.</p> <p>Investment Shares must be sold within 24 months of ceasing to be a Co-operative Control Shareholder. A Shareholder who ceases to spend the Minimum Purchases Amount with the Company must surrender their Co-operative Control Shares. If a Shareholder has not sold their Investment Shares by the required date, the Company is entitled to sell them on the Shareholder's behalf.</p>	<p>Shareholders should be able to hold more Shares than the Share Standard (subject to a cap of 5%) but, generally, only customers of LIC are entitled to hold Ordinary Shares.</p> <p>With LIC as a co-operative, once a Shareholder ceases to spend the Minimum Purchases Amount, they should be required to sell their Shares within a defined period (and the Company must have the ability to ensure that they are sold).</p> <p>The period within which the Shareholder is required to sell their Shares has been shortened to align it with the Compliance Date to assist liquidity in a period where there is likely to be high volumes of trading.</p>

DESCRIPTION	NEW POSITION	CURRENT POSITION	REASON FOR CHANGE
Transfer of Shares	<p>Ordinary Shares will be listed and freely tradable amongst Qualifying Customers on the NZAX.</p> <p>However, Ordinary Shares that are unpaid or partly paid will not be able to be transferred until they have been fully paid up (or otherwise with the approval of the Board).</p>	<p>Co-operative Control Shares may be transferred to a Qualifying Customer (subject to prior Board approval).</p> <p>Investment Shares are listed and traded on the NZAX.</p>	<p>This change is consequential to the decision to move to one class of Shares. It allows Shareholders to still seek an economic investment in LIC beyond meeting the Share Standard. It also gives Shareholders a choice as to when to acquire the Shares and when to sell them for them to meet the Share Standard.</p>
Directors	<p>Elected directors will be elected by Ordinary Shareholders in the relevant region.</p>	<p>Elected directors are elected by Co-operative Control Shareholders in the relevant region.</p>	<p>Consequential in that it reflects the key elements of the Proposal.</p>
Honoraria Committee	<p>The Honoraria Committee will comprise up to four Ordinary Shareholders, elected by the Ordinary Shareholders.</p>	<p>The Honoraria Committee comprises up to four Co-operative Control Shareholders, elected by the Co-operative Control Shareholders.</p>	<p>Consequential in that it reflects the key elements of the Proposal.</p>
LIC Shareholder Council	<p>Councillors will be elected by Ordinary Shareholders in the relevant ward.</p>	<p>Councillors are elected by Co-operative Control Shareholders in the relevant ward.</p>	<p>Consequential in that it reflects the key elements of the Proposal.</p>
Qualifying Products and Services	<p>Those products and services supplied by the Company or any Subsidiary that are identified by the Company in its Conditions and Service Rules as "Qualifying Products and Services", as may be amended from time to time in consultation with the Council.</p>	<p>Stated Products and Services provided by the Company were classed as "Qualifying Products and Services" with any other products and services as the Board specifies from time to time, subject to obtaining the prior approval of the Council.</p>	<p>The Board believes it sensible to have the flexibility to change the Qualifying Products and Services from time to time, and to allow Subsidiaries (eg LIC Agritechnology Company Limited) to supply Qualifying Products and Services and to reflect changes in the broader Group product suite.</p>
Modification of NZAX Listing Rules	<p>As there is only one class of Shares, no distinction needs to be drawn between multiple classes for NZAX Listing Rules purposes.</p>	<p>A number of provisions were required to be included to modify the Listing Rules to reflect the listing of Investment Shares only.</p>	<p>Consequential in that it reflects the key elements of the Proposal.</p>

SCHEDULE 3

SCHEDULE 3

Risks Affecting an Investment in LIC

The risks set out in the below table are provided in the context of Ordinary Shares tradable on the NZAX Main Board. These risks are based on the knowledge and assessment of the Directors as at the date of this document and it is possible that other risks may emerge in the future.

RISK	DESCRIPTION AND ASSESSMENT OF RISK	STEPS TO MITIGATE RISK
Risks relating to Implementation of the Proposal		
1 Adverse price of Ordinary Shares	<p>Following Implementation, Ordinary Shares will be listed on the NZAX and, as such, will be subject to market pricing. It is possible that the market price following Implementation is lower than the value attributed to the Shares for the purposes of the Implementation of the Proposal.</p> <p>Since Ordinary Shares will not be redeemable, Shareholders would be exposed to the associated financial risk inherent in trading in listed securities.</p> <p>It is possible that an exiting Shareholder may need to pay more than the then market price of the Ordinary Shares to exit the Co-operative because the balance owing on each Nil Paid Share will not be affected by any changes in the trading price of Ordinary Shares.</p> <p>Assessment of likelihood of circumstances arising: Medium</p> <p>Assessment of impact: Medium</p>	<p>LIC has sought external financial and valuation advice on the relative values of the Co-operative Control Shares and the Investment Shares and considered the conclusions expressed by the Independent Adviser to assist it in setting the relative values for the purposes of the Proposal.</p>
Risks relating to financial position and performance		
2 Volatility of New Zealand milk price	<p>Volatility of New Zealand milk price will affect returns paid to farmers. A decrease in milk price could reduce returns to farmers. The Company's revenue may therefore be reduced as farmers decrease expenditure as a consequence of their reduced returns.</p> <p>As a net exporter of milk, New Zealand's milk price is heavily influenced by reference to the price set by the Global Dairy Trade.</p> <p>Assessment of likelihood of circumstances arising: High</p> <p>Assessment of impact: High</p>	<p>Continue to explore diversified growth opportunities and ways to improve efficiency.</p> <p>Reduce dependency on the New Zealand market by continuing to diversify into international markets.</p> <p>Reduce dependency on the dairy sector by continuing to diversify product offerings to other species.</p> <p>Continue to focus on innovating products and solutions that provide operational efficiencies to New Zealand dairy farms.</p>

RISK	DESCRIPTION AND ASSESSMENT OF RISK	STEPS TO MITIGATE RISK
Risks relating to delivery of products and services to Shareholders		
3 Disruption to semen straw production	<p>The Company's ability to provide sufficient quality semen during a season relies on a number of factors including the maintenance and operation of key equipment, staff training and adherence to approved procedures and processes. An inability to meet demand for the Company's semen would result in significant reputational damage as well as a reduction in New Zealand revenue.</p> <p>Assessment of likelihood of circumstances arising: Medium</p> <p>Assessment of impact: Medium</p>	<p>Each year a pre-season risk review is conducted of all aspects of the production process and any necessary remedial actions are initiated prior to the season start.</p> <p>Key equipment is routinely maintained and staff trained in its correct use. Standard operating procedures are well documented and regularly reviewed.</p> <p>Semen quality is monitored daily and non-return rates are monitored weekly during the peak of the season.</p> <p>Contingency stock of frozen semen is maintained at a separate location.</p>
4 Major IT system issues	<p>Increased reliance both by farmers and the Company on technology, IT systems and services increases vulnerability to system outages and data loss as a result of cyber intrusions or system failures.</p> <p>Assessment of likelihood of circumstances arising: Medium</p> <p>Assessment of impact: Medium</p>	<p>Security strategy, measures, reviews and audits in place both within the Company and within its technology service providers.</p> <p>Business continuity and disaster recovery plans and procedures documented and regularly tested.</p>
5 Bio-security / animal health issues	<p>An exotic disease outbreak in New Zealand could severely limit the Company's ability to provide biological products, including semen, to dairy farmers in New Zealand and overseas, and to continue testing of milk and other biological samples. Health issues within the Company's bull team could equally reduce its ability to provide quality products and services to dairy farmers.</p> <p>Assessment of likelihood of circumstances arising: Medium</p> <p>Assessment of impact: High</p>	<p>Quarantine procedures on all LIC-controlled locations.</p> <p>Animals maintained at separate locations and effective segregation of bulls occurs within a single location.</p> <p>Business continuity plans in place with regular reviews and scenario testing.</p> <p>Contingency stock of frozen semen maintained at a separate location.</p> <p>Veterinary expertise within the Company.</p> <p>Regular bull inspections.</p>
6 Introduction of disruptive technologies	<p>Inability to commercialise new innovations and/or respond quickly to disruptive technologies causing reduced demand for existing products and services with resultant reduction in revenue.</p> <p>A core part of LIC's business is its information gathering and analysis, much of which occurs through LIC's software and connected devices. This is an area where the speed and frequency of new disruptive technologies, being developed globally, is rising at an accelerated pace. We believe this, together with the increasing interconnectivity and decreasing cost of development, presents a risk to LIC's software product offerings, in particular.</p> <p>Assessment of likelihood of circumstances arising: High</p> <p>Assessment of impact: Medium</p>	<p>Adoption of world-leading software and product development methodologies to enable quicker commercialisation of new and improved products and services and prioritisation of capital spend to ensure developments align with farmer needs.</p>

SCHEDULE 4

SCHEDULE 4

Roadshows 2018 Timetable

Connecting your co-operative to the future

TIMING

Day sessions – 11am - 1pm with a light lunch

Evening sessions – 7.30pm - 9.30pm followed by a light supper

Locations/Schedule

NORTHLAND / WAIKATO / TARANAKI

Day	Date	am/pm	Location	Venue
Mon	26 Feb	am	Kerikeri	Okaihau Golf Club
Mon	26 Feb	pm	Whangarei	To be advised - see www.lic.co.nz/vote
Tues	27 Feb	am	Dargaville	To be advised - see www.lic.co.nz/vote
Tues	27 Feb	pm	Wellsford	Wellsford Community Centre
Wed	28 Feb	am	Pukekohe	Campbell Tyson Events Centre
Wed	28 Feb	pm	Matamata	Matamata Club
Thur	1 Mar	am	Taupiri	Taupiri Rugby Club
Thur	1 Mar	pm	Hamilton	Matangi Hall
Fri	2 Mar	am	Cambridge	Farm Source Store on Albert Street
Mon	5 Mar	am	Waitara	Clifton Rugby Club
Mon	5 Mar	pm	New Plymouth	Quality Hotel New Plymouth
Tues	6 Mar	am	Midhurst (Inglewood)	Farm Source, Inglewood
Tues	6 Mar	pm	Eltham	Eltham Vet Clinic
Wed	7 Mar	am	Waverley	Waverley Community Centre
Wed	7 Mar	pm	Hawera	TSB HUB
Thur	8 Mar	am	Rahotu	Oaonui Hall
Thur	8 Mar	pm	Otorohanga	To be advised - see www.lic.co.nz/vote
Fri	9 Mar	am	Putaruru	St John's Hall

Roadshows 2018 Timetable

Connecting your co-operative to the future

Locations/Schedule

WAIKATO / BOP / LOWER NORTH ISLAND

Day	Date	am/pm	Location	Venue
Mon	26 Feb	am	Te Puke	Pongakawa Hall
Mon	26 Feb	pm	Tauranga	St Peters Church, Tauranga
Tues	27 Feb	am	Whakatane	Awakeri Events Centre
Tues	27 Feb	pm	Opotiki	Senior Citizens Club
Wed	28 Feb	am	Reporoa	To be advised - see www.lic.co.nz/vote
Wed	28 Feb	pm	Rotorua	Distinction Hotel
Thur	1 Mar	am	Galatea	Galatea RSA
Thur	1 Mar	pm	Western Bay	Mangakino Hotel
Fri	2 Mar	am	Morrinsville	Elstow Hall
Mon	5 Mar	am	Te Awamutu	Waipa Workingmens Club
Mon	5 Mar	pm	Ngatea	Ngatea Rugby & Sports Club
Tues	6 Mar	am	Waipukurau	To be advised - see www.lic.co.nz/vote
Tues	6 Mar	pm	Taradale	Taradale Hall
Wed	7 Mar	am	Dannevirke	The Hub
Wed	7 Mar	pm	Pahiatua	Tararua Club
Thur	8 Mar	am	Greytown	South Wairarapa Working Mens Club
Thur	8 Mar	pm	Foxton	To be advised - see www.lic.co.nz/vote
Fri	9 Mar	am	Bulls	South Rangitikei Vets

Roadshows 2018 Timetable

Connecting your co-operative to the future

Locations/Schedule

SOUTH ISLAND				
Day	Date	am/pm	Location	Venue
Mon	26 Feb	am	Golden Bay	Golden Bay Recreation centre
Mon	26 Feb	pm	Reefton	To be advised - see www.lic.co.nz/vote
Tues	27 Feb	am	Whataroa	Whataroa Hall
Tues	27 Feb	pm	Hokitika	To be advised - see www.lic.co.nz/vote
Wed	28 Feb	am	Darfield	Rec and Community Centre
Wed	28 Feb	pm	Ashburton	Hotel Ashburton
Thur	1 Mar	am	Temuka	Temuka Alpine Energy Stadium
Thur	1 Mar	pm	Rakaia	To be advised - see www.lic.co.nz/vote
Fri	2 Mar	am	Culverden	Amuri St. John's
Mon	5 Mar	am	Waimate	Waimate Event Centre
Mon	5 Mar	pm	Waitaki/Papakaio	Papakaio Hall
Tues	6 Mar	am	Taieri	Henley Hall
Tues	6 Mar	pm	Clydevale	Clutha Valley Rugby Club
Wed	7 Mar	am	Gore	James Cumming Wing
Wed	7 Mar	pm	Winton	Salvation Army Hall
Thur	8 Mar	am	Seaward Downs	Seaward Downs Hall
Fri	9 Mar	am	Otautau	Otautau Sports Complex





DIRECTORY

LIC

Livestock Improvement Corporation Limited
LIC Head Office
Corner Ruakura and Morrinsville Roads
Newstead, Hamilton
Private Bag 3016
Hamilton 3240
Tel: +64 7 856 0700
Website: www.lic.co.nz

Financial advisers to LIC

Deutsche Craigs Limited
Vero Centre
48 Shortland Street
Auckland 1010
PO Box 1196
Auckland 1140
Tel: +64 9 919 7400
Website: www.deutscheccraigs.com

Financial and valuation advisers to LIC

PwC
PwC Tower
Level 22, 188 Quay Street
Auckland 1010
Private Bag 92162
Auckland 1142
Tel: +64 9 355 8000
Website: <https://www.pwc.co.nz/>

Independent adviser

Northington Partners
Level 14, 52 Swanson Street
Auckland 1010
PO Box 105 384
Auckland 1143
Tel: +64 9 913 4600
Website: <http://northington.co.nz/>

Legal advisers to LIC

Simpson Grierson
Lumley Centre
88 Shortland Street
Auckland 1010
Private Bag 92518
Auckland 1141
Tel: +64 9 358 2222
Website: www.simpsongrierson.com

Election manager

electionz.com Limited
3/3 Pukaki Road
Yaldhurst
Christchurch 8042
PO Box 3138
Christchurch 8140
Tel: +64 3 377 3530
Email: info@electionz.com

Registrar

Link Market Services Limited
Level 11, Deloitte Centre
80 Queen Street
Auckland 1010
PO Box 91976
Auckland 1142
Tel: +64 9 375 5998
Email: enquiries@linkmarketservices.co.nz

Election helpline

0800 666 033





Internet voting, postal voting & proxy
appointments close
10:30am Monday 12 March 2018

Or

Vote in person at the Special Meeting
10:30am Wednesday 14 March 2018

Our Co-operative. Our Future. Your Vote.

