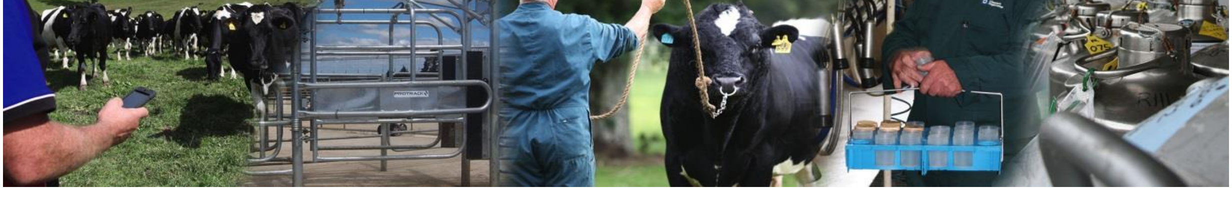
Livestock Improvement Corporation Limited (LIC)

ANNUAL REPORT

Year Ended 31 May 2017



Income Statement
For the year ended 31 May 2017

In thousands of New Zealand dollars	Note	Consolidated 2017	2016
Revenue	3	199,129	205,058
Other income		4,400	5,673
Purchased materials		(28,406)	(37,451)
Staff expenses	5	(89,357)	(92,994)
Depreciation	9	(9,617)	(11,034)
Amortisation	10	(18,468)	(13,558)
Other expenses	4	(49,607)	(53,610)
Earnings before finance activities, taxation and fair value adjustments - Bull Team		**8,075**	**2,085**
Finance income	6	149	896
Finance expenses	6	(2,390)	(1,827)
Fair value adjustments - Bull Team	11	24,663	(5,144)
Profit/(loss) before taxation		**30,498**	**(3,991)**
Tax on fair value adjustments - Bull Team		(6,906)	1,440
Tax - other		(2,792)	(1,464)
Total tax expense	7	**(9,698)**	**(24)**
Profit/(loss) for the year		**20,800**	**(4,015)**
Profit/(loss) attributable to:			
Owners of the Company		20,568	(3,953)
Non-controlling interests		232	(61)
		20,800	**(4,015)**
Earnings per share	18		
Basic and diluted earnings per investment share (NZ dollars)		0.704	(0.136)

Supplementary note to the Income Statement		
Profit/(loss) for the year	**20,800**	**(4,015)**
(Profit)/loss on fair value adjustments - Bull Team	(24,663)	5,144
Tax effect on (profit)/loss on fair value adjustments - Bull Team	6,906	(1,440)
Underlying net earnings /(loss) excluding fair value adjustments - Bull Team and tax thereon	**3,042**	**(312)**

Statement of Comprehensive Income
For the year ended 31 May 2017

In thousands of New Zealand dollars	Consolidated 2017	2016
Profit/(loss) for the year	**20,800**	**(4,015)**
Other comprehensive income (net of income tax)		
Items that may be reclassified to the Income Statement in future periods:		
Effective portion of changes in fair value of cash flow hedges	(224)	(201)
Net change in fair value of available for sale financial assets	830	655
Items that will not be reclassified to the Income Statement in future periods:		
Revaluation of property plant and equipment	1,049	1,709
Other comprehensive income/(loss) for the year, net of tax	1,654	2,163
Total comprehensive income/(loss) for the year	**22,454**	**(1,852)**
Total comprehensive income/(loss) attributable to:		
Owners of the Company	22,223	(1,791)
Non-controlling interests	232	(61)
Total comprehensive income/(loss) for the year	**22,454**	**(1,852)**

Balance Sheet
As at 31 May 2017

In thousands of New Zealand dollars	Note	Consolidated 2017	2016
Assets			
Fixed assets	9	78,390	92,307
Intangible assets	10	73,106	79,655
Biological assets	11	112,174	87,511
Investments & derivatives	12	5,181	3,346
Total non-current assets		**268,851**	**262,819**
Cash & cash equivalents	15	3,458	2,667
Inventories	13	12,003	14,617
Biological assets	11	3,153	2,393
Trade & other receivables	14	47,495	41,160
Assets classified as held for sale	9	6,524	-
Total current assets		**72,633**	**60,836**
Total assets		**341,484**	**323,655**
Equity			
Share capital		58,464	58,464
Reserves		33,437	31,782
Retained earnings		141,285	120,703
Equity attributable to owners of the company	16	**233,186**	210,949
Non-controlling interests		227	8
Total equity		**233,413**	**210,957**
Liabilities			
Provisions	19	5,242	5,829
Term loans	21	15,000	10,000
Deferred tax liability	8	39,141	31,187
Total non-current liabilities		**59,383**	**47,016**
Co-operative Control Shares	17	6,238	6,797
Derivatives	12	206	16
Trade & other payables	20	22,081	22,796
Bank loans & borrowings	21	17,070	32,771
Provision for tax		320	477
Provisions	19	2,773	2,825
Total current liabilities		**48,688**	**65,683**
Total liabilities		**108,071**	**112,698**
Total equity and liabilities		**341,484**	**323,655**

Director

Date: 19 July 2017

Director

Date: 19 July 2017

Statement of Cash Flows
For the year ended 31 May 2017

In thousands of New Zealand dollars	Note	Consolidated 2017	2016
Net cash from/(used in) operating activities			
Cash provided from:			
Receipts from customers		205,195	201,396
Sale of biological assets		1,077	787
Finance income received		149	295
		206,421	**202,478**
Cash applied to:			
Payments to suppliers and employees		(177,108)	(184,008)
Finance expense paid		(1,647)	(1,024)
Income tax paid		(2,308)	(3,010)
		(181,063)	**(188,042)**
	26	**25,359**	**14,436**
Net cash from/(used in) investing activities			
Cash provided from:			
Sale of shares		-	54
Sale of fixed assets		4,242	644
		4,242	**698**
Cash applied to:			
Acquisition of subsidiary - net of cash acquired		(143)	(6,493)
Acquisition of shares		(1,273)	(208)
Acquisition of intangibles		(11,919)	(21,511)
Acquisition of fixed assets		(4,197)	(12,707)
		(17,531)	**(40,919)**
		(13,289)	**(40,221)**
Net cash from/(used in) financing activities			
Cash provided from:			
Co-operative Control Shares paid up		821	1,227
Bank loans and borrowings		(10,500)	32,417
		(9,679)	**33,644**
Cash applied to:			
Repurchase of Co-operative Control Shares		(1,380)	(904)
Dividends paid to Shareholders of the Group		-	(5,983)
Interest paid on Co-operative Control Shares		-	(628)
		(1,380)	**(7,515)**
		(11,059)	**26,129**
Net increase/(decrease) in cash balances		**1,012**	**344**
Cash balances at beginning of year		2,667	2,523
Effect of exchange rate changes on cash held		(220)	(201)
Closing cash balances	15	**3,458**	**2,667**

Statement of Changes in Equity
For the year ended 31 May 2017

In thousands of New Zealand dollars	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Non Controlling Interests (NCI)	Total Equity
Balance at 1 June 2015	58,464	160	143	29,316	130,640	69	218,792
Total comprehensive income for the year							
Profit/(loss) for the year	-	-	-	-	(3,953)	(61)	(4,015)
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	(201)	-	-	-	-	(201)
Net change in fair value of available for sale financial assets	-	-	655	-	-	-	655
Revaluation of property plant and equipment	-	-	-	1,709	-	-	1,709
Total other comprehensive income	-	(201)	655	1,709	-	-	2,163
Total comprehensive income for the year	-	**(201)**	**655**	**1,709**	**(3,953)**	**(61)**	**(1,852)**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	(5,983)	-	(5,983)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(5,983)**	**-**	**(5,983)**
Balance at 31 May 2016	**58,464**	**(41)**	**798**	**31,025**	**120,703**	**8**	**210,957**
Balance at 1 June 2016	58,464	(41)	798	31,025	120,703	8	210,957
Total comprehensive income for the year							
Profit/(loss) for the year	-	-	-	-	20,568	232	20,800
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	(224)	-	-	-	-	(224)
Net change in fair value of available for sale financial assets	-	-	830	-	-	-	830
Revaluation of property plant and equipment	-	-	-	1,049	-	-	1,049
Total other comprehensive income	-	(224)	830	1,049	-	-	1,655
Total comprehensive income/(loss) for the year	-	**(224)**	**830**	**1,049**	**20,568**	**232**	**22,455**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders							
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in ownership interests							
Acquisition of minority interest in subsidiary	-	-	-	-	13	(13)	-
Total changes in ownership interests	**-**	**-**	**-**	**-**	**13**	**(13)**	**-**
Balance at 31 May 2017	**58,464**	**(265)**	**1,628**	**32,074**	**141,285**	**227**	**233,413**

1 Accounting entity

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

These financial statements of LIC, as at and for the year ended 31 May 2017, comprise LIC and its subsidiaries (together referred to as the 'Group').

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

2 Basis of preparation

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

(b) *Basis of measurement*
The financial statements have been prepared on the historical cost basis except for the following:

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

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

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

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

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

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

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

(e) *Goods and Services Tax (GST)*
The financial statements have been prepared on a GST exclusive basis, with the exception of trade receivables and trade payables which are reported inclusive of GST.

(f) *Amendments to NZ IFRS standards and interpretations issued*
Standards, amendments and interpretations issued that are not yet effective and have not been early adopted, and which are relevant to the Group include:
- NZ IFRS 9 (2009) Financial Instruments (effective January 2018)
- NZ IFRS 15 Revenue (effective January 2017)
- NZ IFRS 16 Leases (effective Janaury 2019)

The impact of IFRS 9 & IFRS 15 on the Group's financial statements is believed to be immaterial. The impact of IFRS 16 has not yet been determined.

Notes to the Financial Statements

3. Operating Segments

Information about reportable segments

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

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

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

- NZ Markets Genetics. Is the provision of bovine genetic breeding material and related services predominately to dairy farmers.

- Herd Testing. The provision of herd testing and animal recording for pastoral farmers.

- Farm Software. Includes the provision of data recording and farm management information services.

- Farm Automation. Includes the provision of dairy automated technologies from LIC Automation Ltd, including Protrack.

Other operating segments include international operations, support services, research & development, diagnostics, animal health & treatment services, LIC Deer Ltd, animal evaluation and leadership and governance support services for the Group. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2017 or 2016.

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

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

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

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

Notes to the financial statements

3. Operating Segments (continued)

In thousands of New Zealand dollars	NZ Market Genetics		Herd Testing		Farm Software		Farm Automation		Total Reportable Segments		Other		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External revenues	81,429	82,631	24,631	22,121	41,233	40,166	14,273	17,061	161,567	161,979	41,963	48,752	-	-	203,529	210,731
Inter-segment revenue	-	-	-	-	-	-	1,340	92	1,340	92	1,833	3,292	(3,173)	(3,384)	-	-
Total revenue	81,429	82,631	24,631	22,121	41,233	40,166	15,613	17,153	162,907	162,071	43,795	52,044	(3,173)	(3,384)	203,529	210,731
Depreciation & amortisation	(1,239)	(1,357)	(3,002)	(3,311)	(6,380)	(2,669)	(2,184)	(1,769)	(12,804)	(9,107)	(15,281)	(15,485)	-	-	(28,085)	(24,591)
Reportable segment profit before income tax	49,617	49,055	7,968	5,313	24,770	25,152	6,832	7,201	89,186	86,720	24,546	28,245	-	-	113,732	114,965

Unallocated amounts	2017	2016
Permanent and non seasonal Personnel, Operating and Overheads	(105,657)	(112,831)
Other finance income/expenses	(2,241)	(931)
Impairment	0	(50)
Fair value adjustments - Bull Team	24,663	(5,144)
Profit before income tax	30,498	(3,991)

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

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

Geographical information

In thousands of New Zealand dollars	Revenues 2017	Revenues 2016	Non current assets 2017	Non current assets 2016
New Zealand	186,988	198,843	261,470	254,782
Australia	6,402	3,843	6,590	7,008
Ireland	2,809	2,671	219	252
United Kingdom	2,883	3,360	381	552
Other Countries	4,448	2,014	192	224
Total	203,529	210,731	268,851	262,819

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

Government grants
External revenues attributable to other segments include government grant income of $3.275 million (2016: $5.341 million).

Notes to the Financial Statements

4 Other expenses

The following items of expenditure are included in other expenses:

In thousands of New Zealand dollars	**2017**	**2016**
Donations	26	57
Research and development	13,944	16,893
Impairment expense	18	50
Auditors' remuneration comprises:		
KPMG – audit services	156	138
KPMG – non audit-related services	0	10
KPMG – other assurance services	6	0
Other auditors	41	30

Non audit-related services provided by KPMG, in 2016, were for taxation consultancy services.

Research and development expenses above is the total expenditure incurred across all departments and represents 6.85% of revenue (2016: 8.01%).

5 Staff expenses

In thousands of New Zealand dollars	**2017**	**2016**
Wages and salaries	80,377	81,180
Contributions to employee superannuation	2,412	3,089
Other employee expenses	6,569	8,724
	89,357	**92,994**

6 Finance income and expense

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

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

In thousands of New Zealand dollars	**2017**	**2016**
Interest income on loans and receivables	92	214
Net foreign exchange gain	-	601
Dividend income on available-for-sale financial assets	57	81
Finance income	**149**	**896**
Interest expense	(1,476)	(1,199)
Dividend paid on Co-operative Control Shares	-	(628)
Net foreign exchange loss	(914)	-
Finance expense	**(2,390)**	**(1,827)**
Net finance expense	**(2,241)**	**(931)**

7 Income tax expense

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

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

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

In thousands of New Zealand dollars	**2017**	**2016**
Current tax expense		
Current period	1,682	1,408
Adjustments for prior periods	470	-
	2,152	1,408
Deferred tax expense		
Origination and reversal of temporary differences	7,547	(1,404)
Adjustments for prior periods	(1)	20
	7,546	(1,384)
Total income tax expense	**9,698**	**24**

Reconciliation of tax expense

In thousands of New Zealand dollars	**2017**	**2016**
Profit/(loss) for the period	20,800	(4,015)
Total income tax expense	9,698	24
Profit/(loss) before income tax	30,498	(3,991)
Income tax using the Company's domestic tax rate: 28% (2016: 28%)	8,539	(1,117)
Effect of tax rates in foreign jurisdictions	77	75
Non-deductible expenses	613	949
Under/(over) provided in prior periods	469	117
Total income tax expense	**9,698**	**24**

In thousands of New Zealand dollars	**2017**	**2016**
Revaluation of buildings	408	401
Total income tax recognised directly in other comprehensive income	**408**	**401**

Imputation credits

In thousands of New Zealand dollars	**2017**	**2016**
Imputation credits are available to shareholders of the Company	**17,005**	**14,732**

Notes to the Financial Statements

8 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of New Zealand dollars	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Fixed assets	-	-	(6,641)	(5,769)	(6,641)	(5,769)
Intangible assets	-	-	(2,940)	(2,940)	(2,940)	(2,940)
Biological assets	-	-	(30,775)	(24,243)	(30,775)	(24,243)
Inventories	-	-	(51)	(47)	(51)	(47)
Provisions	1,254	1,790	(55)	(59)	1,199	1,731
Other items	67	81		-	67	81
Net tax assets/(liabilities)	**1,321**	**1,871**	**(40,462)**	**(33,058)**	**(39,141)**	**(31,187)**

Movement in temporary differences during the year

In thousands of New Zealand dollars	**Balance 31 May 2015**	Recognised in profit or loss	Recognised in equity	**Balance 31 May 2016**	Recognised in profit or loss	Recognised in equity	**Balance 31 May 2017**
Fixed assets	(4,922)	(446)	(401)	(5,769)	(464)	(408)	(6,641)
Intangible assets	(2,940)	-	-	(2,940)	-	-	(2,940)
Biological assets	(25,742)	1,499	-	(24,243)	(6,532)	-	(30,775)
Inventories	(59)	12	-	(47)	(4)	-	(51)
Provisions	1,407	324	-	1,731	(532)	-	1,199
Other items	86	(5)	-	81	(14)	-	67
	(32,170)	**1,384**	**(401)**	**(31,187)**	**(7,546)**	**(408)**	**(39,141)**

Notes to the Financial Statements

9 Fixed assets

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

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

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

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

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

In thousands of New Zealand dollars	Land	Buildings	Plant and equipment	Vehicles	Furniture and fittings	Computers	Total
Cost or fair value							
Balance at 1 June 2015	35,873	29,954	46,680	18,093	3,581	11,382	145,563
Additions	-	3,305	5,347	3,558	931	993	14,134
Additions through business combination	-	-	309	46	-	-	355
Increases/(decreases) resulting from revaluations	678	(322)	-	-	-	-	355
Disposals	-	(90)	(1,912)	(3,543)	(961)	(2,263)	(8,769)
Foreign exchange impact	-	(2)	6	26	4	2	35
Balance at 31 May 2016	**36,551**	**32,845**	**50,430**	**18,180**	**3,555**	**10,114**	**151,675**
Balance at 1 June 2016	**36,551**	**32,845**	**50,430**	**18,180**	**3,555**	**10,114**	**151,675**
Additions	-	254	1,754	486	118	1,186	3,798
Additions through business combination	-	-	-	-	-	-	-
Increases/(decreases) resulting from revaluations	-	--	-	-	-	-	--
Transfer to non-current assets held for sale	(5,110)	(1,298)	(31)	(80)	-	(5)	(6,524)
Disposals	(36)	(42)	(10,799)	(8,723)	(89)	(66)	(19,755)
Foreign exchange impact	-	7	(30)	(122)	(8)	(10)	(163)
Balance at 31 May 2017	**31,405**	**31,528**	**41,324**	**9,741**	**3,576**	**11,219**	**128,793**
Depreciation and impairment losses							
Balance at 1 June 2015	-	(299)	(35,421)	(11,188)	(2,397)	(8,047)	(57,352)
Depreciation for the year	-	(1,850)	(4,095)	(2,797)	(557)	(1,734)	(11,034)
Adjustment due to revaluations	-	1,755	-	-	-	-	1,755
Disposals	-	14	1,674	2,632	907	2,061	7,288
Foreign exchange impact	-	(1)	(1)	(19)	(3)	(2)	(25)
Balance at 31 May 2016	**-**	**(381)**	**(37,843)**	**(11,372)**	**(2,050)**	**(7,722)**	**(59,368)**
Balance at 1 June 2016	-	(381)	(37,843)	(11,372)	(2,050)	(7,722)	(59,368)
Depreciation for the year	-	(1,865)	(4,017)	(1,812)	(520)	(1,404)	(9,618)
Adjustment due to revaluations	-	1,456	-	-	-	-	1,694
Disposals	-	5	10,732	5,975	64	7	16,783
Foreign exchange impact	-	-	23	81	8	(6)	106
Balance at 31 May 2017	**-**	**(785)**	**(31,105)**	**(7,128)**	**(2,498)**	**(9,125)**	**(50,403)**
Carrying amounts							
At 1 June 2015	35,873	29,655	11,259	6,905	1,184	3,335	88,211
At 31 May 2016	**36,551**	**32,464**	**12,587**	**6,808**	**1,505**	**2,392**	**92,307**
At 1 June 2016	36,551	32,464	12,587	6,808	1,505	2,392	92,307
At 31 May 2017	**31,405**	**30,743**	**10,219**	**2,613**	**1,078**	**2,094**	**78,390**

9 Fixed assets (continued)

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

Land	10,694
Buildings	26,154

At the reporting date there was $0.210 million of work-in-progress (WIP) assets which are currently not being depreciated (2016: $0.314 million). These are included in the above carrying values of Buildings and Plant and Equipment.

Valuations of land and buildings were performed to determine the carrying value of these assets at 30 April 2017. These were performed by independent registered valuers, Colliers International New Zealand, Fergusson Lockwood & Associates and Jon G. Newson, and are based on market values of transactions for similar properties. Fair values of land have been determined by using a direct comparison methodology and the fair value of buildings have been determined by using a capitalised rental methodology.

Assets classified as held for sale are comprised of farm land and associated buildings located in the South Island. The assets are expected to be sold within the next 12 months and have been valued in line with a market assessment prepared by an independent registered valuer.

10 Intangible assets

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

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

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

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

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

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

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

Notes to the Financial Statements

10 Intangible assets (continued)

In thousands of New Zealand dollars	Intellectual Property	Goodwill	Database	Software	Total
Cost					
Balance at 1 June 2015	2,496	8,196	10,500	100,115	121,307
Acquisitions – internally developed	292	-	-	22,065	22,357
Acquisitions – separately acquired	116	-	-	1,085	1,201
Acquisitions - business combinations	-	6,082	-	-	6,082
Disposals	(344)	-	-	(10,576)	(10,920)
Foreign exchange impact	-	-	-	3	3
Balance at 31 May 2016	**2,560**	**14,278**	**10,500**	**112,692**	**140,030**
					0
Balance at 1 June 2016	2,560	14,278	10,500	112,692	140,030
Acquisitions – internally developed	693	-	-	9,149	9,842
Acquisitions – separately acquired	-	-	-	2,881	2,881
Reclassification of Goodwill	3,937	(4,143)	-	-	(206)
Disposals	-	-	-	(910)	(910)
Foreign exchange impact	-	(116)	-	(2)	(118)
Balance at 31 May 2017	**7,190**	**10,019**	**10,500**	**123,810**	**151,519**
					0
Amortisation and impairment losses					0
Balance at 1 June 2015	(217)	(3,699)	-	(52,036)	(55,952)
Amortisation for the year	(412)	-	-	(13,146)	(13,558)
Impairment	-	-	-	-	-
Disposals	531	-	-	8,606	9,137
Foreign exchange impact	-	-	-	(2)	(2)
Balance at 31 May 2016	**(98)**	**(3,699)**	**-**	**(56,578)**	**(60,375)**
Balance at 1 June 2016	(98)	(3,699)	-	(56,578)	(60,375)
Amortisation for the year	(469)	-	-	(17,999)	(18,468)
Impairment	-	-	-	-	-
Disposals	-	-	-	426	426
Foreign exchange impact	-	-	-	4	4
Balance at 31 May 2017	**(567)**	**(3,699)**	**-**	**(74,147)**	**(78,413)**
					0
Carrying amounts					0
At 1 June 2015	2,279	4,497	10,500	48,079	65,355
At 31 May 2016	**2,462**	**10,579**	**10,500**	**56,114**	**79,655**
At 1 June 2016	2,462	10,579	10,500	56,114	79,655
At 31 May 2017	**6,623**	**6,320**	**10,500**	**49,663**	**73,106**

At the reporting date there was $4.856 million of capital work in progress within software which is currently not being amortised (2016: $28.102 million).

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

In thousands of New Zealand dollars	Consolidated 2017	2016
LIC Ireland goodwill (Other segment)	353	353
LIC Automation Limited (Farm Automation segment)	4,144	4,144
Beacon Automation Pty Limited (Other segment)	1,823	6,082
	6,320	**10,579**

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

The reclassification of goodwill is as a result of a review of intellectual property acquired as part of the acquisition of Beacon Heat Detectors Pty on 1 February 2016. As a result an intangible asset reflecting the value of patents and trademarks held by Beacon has been recognised and the amount initially recorded as goodwill has been reduced.

11 Biological assets

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

- Bull Team; and
- Other livestock including dairy cows, grazing stock and deer livestock

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

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

In thousands of New Zealand dollars	**Bull Team**	**Other livestock**	**Total**
Balance at 1 June 2015	92,655	2,414	95,069
Decrease due to sales	-	(774)	(774)
Change in fair value less estimated point-of-sale costs - Bull Team	(5,144)	-	(5,144)
Change in fair value less estimated point-of-sale costs - Other	-	754	754
Balance at 31 May 2016	**87,511**	**2,393**	**89,905**
Non-current	87,511	-	87,511
Current	-	2,393	2,393
Balance at 31 May 2016	**87,511**	**2,393**	**89,905**
Balance at 1 June 2016	87,511	2,393	89,905
Decrease due to sales	-	(1,076)	(1,076)
Change in fair value less estimated point-of-sale costs - Bull Team	24,663	-	24,663
Change in fair value less estimated point-of-sale costs - Other		1,836	1,836
Balance at 31 May 2017	**112,174**	**3,153**	**115,327**
Non-current	112,174	-	112,174
Current	-	3,153	3,153
Balance at 31 May 2017	**112,174**	**3,153**	**115,327**

11 Biological assets (continued)

At 31 May 2017 the Bull Team comprised 1,036 bulls (2016: 1,002 bulls)

Valuation detail

The Bull Team has been valued at fair value which is consistent with the valuation methodology used in prior years.

The valuation consisted of the following key assumptions:

WACC	annualised post tax rate 6.34 to 7.78 percent (2016: annualised post tax 6.57 to 7.53 percent)
Inflation rate net effect	2.0 percent (2016: 1.7 percent)
Tax rate	28 percent (2016: 28 percent)

The impact of a one percent shift in tax would not have a material impact on the fair value of the Bull Team. A 1% increase in the WACC rates would effect a change of -$3.5m and a 1% decrease would increase the value by $3.8m. A 1% inflation adjustment would cause a shift of +/- $1.1m. It is estimated the current Bull Team bulls have a life of up to 8 years.

Key sensitivity areas in addition to the above are: sales product mix, pricing, bull team composition, and forecast farmgate milk price.

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

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

Animal Health
The Group's Bull Team is exposed to the risk of a major disease outbreak in the New Zealand bovine herd.

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

Supply and demand risk

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

The Bull Team valuation is linked directly to the performance of the New Zealand dairy industry.

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

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

12 Investments & derivatives

The fair value of investments in equity securities, accounted for as available-for-sale financial assets, is determined by reference to their quoted bid price at the reporting date. This would fall under Level 1 or 2 of the fair value hierarchy (see note 22). Where an active market price is not available for available-for-sale financial assets the market value is determined by using a valuation technique. The valuation technique adopted for the Group is an earnings multiple methodology, and recent arms length transactions. The earnings multiple is determined with reference to known entities in a like sector. This would fall under Level 3 of the fair value hierarchy (see note 22).

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

In thousands of New Zealand dollars	**2017**	**2016**
Current investments		
Derivatives	(206)	(16)
	(206)	**(16)**
Non-current investments		
Investment	18	18
Available-for-sale financial assets	5,163	3,328
	5,181	**3,346**

13 Inventories

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

In thousands of New Zealand dollars	**2017**	**2016**
Semen	3,146	3,082
Equipment	8,463	11,155
Other	394	381
	12,003	**14,617**

In 2017, Inventories utilised and expensed during the period amounted to: $15.716 million (2016: $19.717 million).
Inventories written off in 2017 totalled $0.938 million (2016: $0.003 million).

14 Trade & other receivables

In thousands of New Zealand dollars	**2017**	**2016**
Trade receivables	33,136	36,830
Other receivables	730	1,198
Prepayments	13,628	3,132
	47,495	**41,160**

Prepayments include $12.125 million of costs relating to revenue generation and cost efficiency projects for future years (2016: $1.735 million).

15 Cash & cash equivalents

In thousands of New Zealand dollars	**2017**	**2016**
Bank	3,458	2,667
Cash and cash equivalents in the statement of cash flows	**3,458**	**2,667**

16 Capital and reserves

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

Share capital - Investment shares

In thousands of shares	**2017**	**2016**
On issue at 1 June	29,529	29,529
On issue at 31 May	**29,529**	**29,529**

The Parent had 29,528,590 (2016: 29,528,590) authorised and fully paid Investment Shares on issue. These do not confer voting rights, but are tradable between Co-operative Control shareholders on the Alternative Board of the New Zealand Exchange Limited (NZAX). Employees of LIC are able to purchase Investment shares under the LIC Employee Share Scheme.

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

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

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

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

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

In thousands of New Zealand dollars	**2017**	**2016**
No final Investment Share dividend paid in 2017 (2016: 20.26 cents)	-	5,983

After 31 May 2017 the following dividends were proposed by the Directors in relation to the year to 31 May 2017.

In thousands of New Zealand dollars	**2017**	**2016**
6.44 cents per Investment Share (2016: No dividend)	1,901	-

17 Co-operative Control Shares

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

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

In thousands of shares	**2017**	**2016**
On issue at 1 June	6,797	6,474
Own shares acquired	(1,380)	(904)
Issue of shares	821	1,227
On issue at 31 May	**6,238**	**6,797**

The Parent had 6,238,006 (2016: 6,796,790) Co-operative Control Shares on issue at reporting date. The shares have a nominal value of $1.00 each. All shares confer identical rights, privileges, limitations and conditions on the holders of the shares. Co-operative Control Shares must be redeemed when a Shareholder has ceased to be, or no longer has the capacity to be, a user of the Parent's products and services. Redemptions can occur either on application for voluntary surrender by the Shareholder or by the Parent pursuant to the Constitution.

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

18 Earnings per share

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

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 May 2017 was based on the profit / loss attributable to Investment shareholders of a profit of $20.800 million (2016: loss of $4.015 million) and a weighted average number of shares outstanding of 29.529 million (2016: 29.529 million), calculated as follows:

Profit/(loss) after tax attributable to investment shareholders

In thousands of New Zealand dollars	**2017**	**2016**
Net profit/(loss) for the period	**20,800**	**(4,015)**

Weighted average number of Investment shares

In thousands of shares	**2017**	**2016**
Issued Investment shares at 1 June	29,529	29,529
Weighted average number of Investment shares at 31 May	**29,529**	**29,529**

Earnings/(loss) per Investment Share after payment of Co-operative control share dividends

In New Zealand dollars	**2017**	**2016**
Earnings per Investment share	**0.704**	**(0.136)**

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

19 Provisions

Provision for employee entitlements

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

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

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

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

Provision for sire proving rebate

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

ACC Partnership Programme

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

In thousands of New Zealand dollars	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Total
Balance at 1 June 2016	**4,740**	**3,622**	**292**	**8,654**
Additional provision made	(450)	641	9	200
Amount utilised	-	(839)	-	(839)
Balance at 31 May 2017	**4,290**	**3,424**	**301**	**8,015**
Non-current	2,965	2,202	75	5,242
Current	1,325	1,222	226	2,773
Balance at 31 May 2017	**4,290**	**3,424**	**301**	**8,015**

Notes to the Financial Statements

20 Trade & other payables

In thousands of New Zealand dollars	2017	2016
Trade payables	19,288	19,233
Short term employee entitlements	1,475	1,270
Non-trade payables and accrued expenses	1,318	2,293
	22,081	**22,796**

21 Financial risk management

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

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

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

(a) *Market Risk: Foreign Exchange*

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

In thousands of New Zealand dollars	USD	AUD	GBP	EUR	BRL
2016					
Foreign currency risk					
Trade & other receivables	1,968	871	2,137	1,960	138
Cash balances	77	490	411	82	257
Trade & other payables	(226)	(174)	(201)	(779)	(70)
Net balance sheet exposure before hedging activity	**1,818**	**1,187**	**2,347**	**1,263**	**325**
Forward exchange contracts					
Notional amounts	(1,896)	(1,807)	(38)	(301)	-
Net exposure	**(78)**	**(620)**	**2,308**	**962**	**325**
2017					
Foreign currency risk					
Trade and other receivables	1,146	1,127	1,588	2,093	225
Cash balances	23	991	685	178	37
Trade and other payables	(589)	(498)	(293)	(110)	(80)
Net balance sheet exposure before hedging activity	**581**	**1,619**	**1,981**	**2,160**	**182**
Forward exchange contracts					
Notional amounts	(1,819)	(1,973)	(4,820)	(44)	-
Net exposure	**(1,239)**	**(355)**	**(2,840)**	**2,116**	**182**

The Group utilises forward exchange contracts to mitigate its risk of exposure from foreign currency fluctuations. The net balance sheet position reflected above is held to hedge open purchase orders and commitments not reflected in the Balance Sheet at 31 May. The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. The net fair value of forward exchange contracts used as hedges of forecast transactions at 31 May 2017 is a net liability of $0.206 million (2016: $0.016 million liability), comprising assets of $0.024 million (2016: $0.100 million) and liabilities of $0.230 million (2016: $0.116 million).

It is estimated that a general increase of 1 percent in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit before income tax by approximately $0.029 million for the year ended 31 May 2017 (2016: $0.029 million).

(b) Liquidity Risk

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

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

In thousands of New Zealand dollars	**2017**		**2016**	
	Total	**Repayable on demand**	**Total**	**Repayable on demand**
Trade and other payables	22,081	22,081	22,796	22,796
Co-operative control shares	6,238	6,238	6,797	6,797
Bank loans and borrowings	17,070	17,070	32,771	32,771
Term loans	15,000	-	10,000	
Total non derivative liabilities	**60,389**	**45,389**	**72,364**	**62,364**

(c) Credit Risk

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

In thousands of New Zealand dollars	**Gross receivable 2017**	**Impairment Provision 2017**	**Gross receivable 2016**	**Impairment Provision 2016**
Trade receivables				
Not past due	32,768	-	36,613	-
Past due 0-30 days	501	-	758	-
Past due 31-120 days	451	(12)	443	(21)
Past due 121-360 days	246	(87)	324	(89)
Total	**33,966**	**(99)**	**38,138**	**(110)**

There were no material trade receivables expensed as bad debts during the year (2016: $nil).

(d) Interest Rate Risk

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

In thousands of New Zealand dollars	**2017**		**2016**	
	Total	**6 months or less**	**Total**	**6 months or less**
Interest bearing instruments				
Assets				
Cash and cash equivalents	3,458	3,458	2,667	2,667
Liabilities				
Bank loans and borrowings	17,070	17,070	32,771	32,771
Term loans	15,000	-	10,000	-

The weighted average interest rate paid on borrowings in 2017 was 3.32 percent (2016: 3.08 percent).

At 31 May 2017 it is estimated that a general increase of one percent in interest rates would decrease the Group's profit/increase the Group's loss before income tax by approximately $0.320 million (2016: $0.428 million).

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

22 Fair value hierarchy

Fair values

The carrying value of assets are not significantly different to their fair value.
The methods used in determining the fair values of financial instruments are discussed in notes 12 and 21.
The methods used in determining the fair values of fixed assets are discussed in note 9.
The methods used in determining the fair values of biological assets are discussed in note 11.

Fair value hierarchy

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

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

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

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

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives	-	(206)	-	(206)
Available for sale financial assets	1,256	3,780	146	5,181
Land & Buildings	-	62,386	-	62,386
Biological assets	-	-	115,328	115,328

Reconciliation of investments defined as level 3:

Opening balance	162
Movements in fair value through reserves	(16)
Transfer to level 2	
	146

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

Reconciliation of investments defined as level 3:

Opening balance	213
Movements in fair value through reserves	(52)
Transfer to level 2	-
	162

23 Operating leases

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

Leases as lessee
Non-cancellable operating lease rentals are payable as follows:

In thousands of New Zealand dollars	**2017**	**2016**
Less than one year	1,759	1,479
Between one and five years	2,790	2,816
More than five years	262	495
	4,810	**4,791**

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

During the year ended 31 May 2017 $1.205 million was recognised as an expense in the income statement in respect of operating leases (2016: $1.404 million). $0.127 million was recognised as income in respect of subleases (2016: $0.124 million).

24 Capital commitments

As at 31 May 2017 the Group had entered into contracts to purchase fixed and intangible assets for $1.781 million (2016: $0.540 million). These commitments are expected to be settled in the following financial year.

25 Contingencies

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

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

In thousands of New Zealand dollars	**2017**	**2016**
Profit/(loss) for the period	**20,800**	**(4,015)**
Adjustments for:		
Depreciation	9,617	11,034
Amortisation of intangible assets	18,468	13,558
Share of loss in equity accounted investments	258	-
Change in deferred taxation	7,954	(983)
Change in fair value of the Bull Team	(24,663)	5,144
Impairment	-	50
(Gain)/loss on sale of fixed assets	(1,125)	(332)
	10,508	**28,470**
Change in inventories (increase)/decrease	2,614	(1,455)
Change in trade & other receivables (increase)/decrease	(6,335)	(6,787)
Change in biological assets (increase)/decrease	(760)	20
Change in trade & other payables increase/(decrease)	(715)	(586)
Change in provisions increase/(decrease)	(210)	(1,269)
Items reclassified to/from Investing/Financing activities	(544)	58
	(5,949)	**(10,019)**
Net cash from operating activities	**25,359**	**14,436**

27 Related parties

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

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

Transactions with key management personnel
Key management personnel compensation comprised:

In thousands of New Zealand dollars	**2017**	**2016**
Short term employee benefits	3,273	3,018
Defined contribution superannuation plans	-	94
	3,273	**3,112**

In thousands of New Zealand dollars	**2017**	**2016**
Sale of goods and services		
Sale of goods and services to Directors and key management personnel during period	2,390	2,762
Total balance outstanding at 31 May	297	295

	Co-operative Shares		**Investment Shares**	
	2017	**2016**	**2017**	**2016**
Shareholding of related parties				
G Baldwin	14,719	13,929	92,797	62,797
M Jagger	1,540	1,327	21,967	21,967
D Jensen	1,355	1,593	2,710	2,710
M King	10,715	7,002	23,365	21,869
S Poole	1,988	2,211	18,939	18,939
A Reid	6,263	6,609	90,240	90,240
A Watters	39,954	9,542	11,510	7,465

All Directors excluding Mr Lough, Mrs Foote and Ms Kinser Reed are customers of the Parent and purchase products and services for their farming activities on an ongoing and arms length basis. Shares in LIC held by shareholding entities are included in the above shareholding of related parties where there is deemed to be influence or control which could be as a Director but not an owner or as a direct shareholding.

Employee share scheme
Craigs Investment Partners Limited, on behalf of the Company, acts as Manager for the LIC Employee Share Scheme. Costs of $0.011 million were incurred in running the scheme for the year (2016: $0.019 million). Executive management shareholdings fall under this scheme.

Loan from related party
A non-controlling interest continued to advance $1.577 million to the Group (2016: $1.608 million) during the period. The loan has a current prevailing interest rate of 3.25 percent (2016: 3.25 percent). The loan is unsecured and repayable on demand.

28 Group investments

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

Subsidiaries

Name	Country of Incorp	Class of Share	Voting Interest Held 2017 %	Voting Interest Held 2016 %	Balance Date	Principal Activity
Livestock Improvement (New Zealand) Corporation Ltd	NZ	Ordinary	100	100	31-May	Holding Company
Livestock Improvement Corporation (UK) Ltd	UK	Ordinary	100	100	31-May	Semen Sales
Livestock Improvement Pty Ltd	Australia	Ordinary	100	100	31-May	Semen Sales
LIC Deer Ltd	NZ	Ordinary	100	100	31-May	Deer Artificial Breeding
LIC Ireland Ltd	Ireland	Ordinary	100	100	31-May	Semen Sales
Paul Shewan & Co Pty Ltd (Trading as Northern Feed Systems)	Australia	Ordinary	100	100	31-May	Farm Automation Systems – non-trading
FarmKeeper Pty Ltd	Australia	Ordinary	100	100	30-Jun	Farm Mapping Software
Overland Corner Holding Pty Ltd	Australia	Ordinary	100	100	30-Jun	Farm Mapping Software
LIC USA Ltd	USA	Ordinary	100	100	31-May	Marketing Support
LIC Automation Limited	NZ	Ordinary	100	100	31-May	Farm Automation Systems
NZ Brasil Producao Animal Ltda	Brazil	Ordinary	100	70	31-Dec	Semen Sales
Beacon Automation Pty Ltd	Australia	Ordinary	75	75	31-May	Heat Detection Aids
LIC Agritechnology Company Ltd	NZ	Ordinary	100	-	31-May	Service Support

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

Associates Name	Country of Incorp	Class of Share	Voting Interest Held 2017	Voting Interest Held 2016	Balance Date	Principal Activity
Agrigate GP Limited	NZ	Ordinary	50	-	31-Jul	Farm Software

29 Subsequent events

On 26 June 2017 LIC announced it had increased its ownership interest in National Milk Records PLC (NMR) from 2.6% to 19.8%, at a cost of GBP £2.6 million. NMR, a publicly listed company, is the leading supplier of farm management recording services in the United Kingdom. LIC's stake in NMR will be held through its subsidiary, Livestock Improvement Corporation (UK) Limited.

Dividend declared refer to Note 16.

Independent Auditor's Report

To the shareholders of Livestock Improvement Corporation Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Livestock Improvement Corporation Limited (the company) and its subsidiaries (the Group) on pages 1 to 27:

i. present fairly in all material respects the Group's financial position as at 31 May 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 May 2017;
- the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $1 million.

Key Audit Matters

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

The key audit matter	How the matter was addressed in our audit
Valuation of the Bull Team	
Refer to Note 11 to the Financial Report. Determining the valuation of the bull team, which is the core asset to both the domestic and international genetics operations of the group, is a highly judgmental and complex area. Management prepare a model that projects the number of straws that the current team can produce and will be sold over the life of the bulls. The valuation models factor the cost of rearing, animal and farm management costs, and ultimately forecasts of processing costs to make sales. The calculated surplus is discounted to reflect the time value of money.	Our audit procedures included, among others, valuation specialist review of the model and challenge of management's significant assumptions such as: — projected sales volumes and pricing, — discount rates applied, and — life of the bulls. We compared sales and costs growth, and inflation rates to historical data and published market forecast data where available. We reviewed market and industry data to assess management's discount rate applied to the final model. We assessed projected pricing and life of the bulls based on our knowledge of the industry. We found the inputs to be comparable. We also considered management's forecasts in previous years and found it to be sufficiently accurate based on actual results achieved.
Revenue Generation and Cost Efficiency Consultancy Costs	
Refer to Note 14 to the Financial Statements Consultants have been engaged by management to develop initiatives for generation of revenue and cost efficiencies to assist with making the group more responsive to changes in the dairy industry. Consultants are paid fees contingent on the successful outcomes of individual initiatives. The timing of fees being expensed can differ from the timing of the successful outcome being achieved. The determination of a successful outcome is a key judgement by management.	Our audit procedures included, among others, an examination of the contractual terms between the group and the consultants to understand the group's obligations, and the nature and timing of the payments made to the consultants. Our review of terms between the consultants and the group, including amendments, found the group has recognised these fee payments in accordance with these terms. We also evaluated management's monitoring of initiatives, which drives the timing and amount of fees payable, to become satisfied that adequate processes are used by management to monitor the initiatives, and that judgements made in regards to successful outcomes were reasonable.

Carrying Value of Intangible Assets

Refer to Note 10 to the Financial Statements.

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

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

The three cash generating units (CGUs) holding these assets are required to be tested for impairment on an annual basis, and management have developed models to test the carrying value of these assets.

We focussed our audit effort in determining whether the judgements made by management in allocating goodwill to each CGUs were appropriate.

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

- Assessing management's future sales and growth assumptions compared to external market data and historical performance of each of the CGUs.
- Comparing management's previous forecasts to actual results achieved overall.
- Assessing whether the outcome of the cashflow forecast models were influenced by use of alternative inputs within a reasonable range.

From the procedures performed, we have no matters to report.

Other Information

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

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

Use of this Independent Auditor's Report

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

Responsibilities of the Directors for the consolidated financial statements

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

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

Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objective is:

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

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

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

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

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Independent Auditor's Report.

KPMG

Matthew Prichard

For and on behalf of

KPMG
Auckland

19 July 2017

LIC full year results 2016-2017

Farmer-owned co-operative, Livestock Improvement Corporation Limited (NZX: LIC), announces its financial results for the year ending 31 May 2017.

As forecast in the half year result in February, LIC has returned to a modest level of profitability in the 2016-2017 year.

Strong performance in its core services of artificial breeding and herd testing, and a reduction in operating costs across the business all contributed to a positive result and a return in value to all shareholders.

Chairman Murray King said the co-operative is back on track with farmers continuing to invest in LIC's services and solutions.

"Our increase in underlying net earnings reflects our strong commitment to farmers, and the increasing importance of on-farm products and services that improve efficiency, productivity and profitability.

"With continued volatility in milk prices and environmental constraints, farmers are more aware of the need to optimise production in a sustainable way.

"While we are very pleased to be back in the black, we are still actively working to minimise our operating costs so that we can weather future challenges that may arise.

"With better cost efficiencies and continued investment in R&D, technology and on-farm solutions I'm confident that we're heading in the right direction and towards a stronger co-operative," said Mr King.

During the financial year, LIC made substantial reductions in costs by reducing expenses and making the best use of existing resources. This includes focusing capital IT investments on key areas only, and extending the working life of assets.

"Our bull teams get better every year and their presence on the industry's Ranking of Active Sires (RAS) list remains very strong across all breeds. The genetic gain they deliver to our farmers is highly valuable and calculated (by DairyNZ subsidiary NZAEL) to be worth more than $250,000 to an average sized herd over 10 years, and deliver about $300 million annually to the national economy. For our farmers, genetic gain is cumulative and permanent.

"This contribution was celebrated in December when we tagged the 10,000th bull for the Sire Proving Scheme since it started in the 1950s. The vast majority of dairy cows grazing on New Zealand pastures today are from the LIC bloodlines reared through the scheme," said Mr King.

LIC's annual result includes the annual non-cash revaluation of the biological bull team, required under accounting standards to "fair value". The valuation of the bull team is based on a model designed independently of LIC that looks at future revenue streams and costs associated with the current bulls owned, discounted back to current value.

The revaluation of the team was relatively significant this year, reflecting increased confidence for future year's milk price and resulting sales, reduced costs and a more rigorous approach to forecasting developed alongside consultants.

During the year the co-op also launched and continued its investment in MINDA LIVE, the online version of its farm management system used by over 90% of New Zealand dairy farmers. A number of new features have been added since its launch in June 2016, as well as enhancements to improve speed.

“We’ve had good take-up of MINDA LIVE in its first year in market, and we are continually working on the programme to make it more powerful and intuitive.

“We are committed to that investment and continuing our work to make the system even better with feedback from our farmers,” said Mr King.

Sales in discretionary areas of on-farm spending, including GeneMark DNA parentage and LIC Automation systems were still well below 2015 levels but LIC’s international markets had a good year with strong genetics sales in the UK and Ireland.

Other business highlights for the year included the launch in February of the online tool Agrigate, a joint venture with Fonterra Farm Source. Agrigate will combine a range of key farm data in one place, including information from MINDA as well as weather conditions, animal health, milk production, financials, pasture cover and fertiliser applications.

On 1 December 2016 LIC separated into two businesses, a herd improvement company (LIC) and an agritechnology subsidiary (LIC Agritechnology Company Limited). LIC’s core products, MINDA, AB and herd testing remain with the co-operative. MINDA is owned by the co-operative but operated by the subsidiary.

“Forming an agri-tech company allows us to pursue opportunities for growth, which flow to LIC’s 10,500 livestock farmer shareholders in the form of continually improved products and services.

“The LIC board is also making progress with consideration of options for addressing the disparity between the two classes of LIC shares to find a fairer way of dealing with all shareholders’ interests,” said Mr King.

The LIC board plan to seek shareholder approval on a preferred option in early 2018.

Key points:

- Net Profit After Tax (NPAT) was $20.8 million, compared to the previous year loss of $4 million. This includes the annual revaluation post tax of the biological bull team of $17.7 million profit, compared to a write down of $3.7 million the prior year.
- Underlying Net earnings (NPAT), excluding the increase on fair value of the biological assets and related tax effect) were $3.0 million, up $3.3 million on the previous year loss of $0.3 million.
- Revenue from ordinary activities including other income from grants was $203.5 million, down $7.2 million (-3.4%) on the previous year.
- Sales from core products including artificial breeding (AB) and herd testing were up on the previous year, with 5 million AB straws sold and 9.2 million milk samples processed for analysis.
- A full year dividend of $2.43 million will be paid on 18 August to co-operative and investment shareholders, representing 80% of underlying earnings.
- LIC continues to operate a strong balance sheet with total assets including cash, software, land and buildings and bull teams of $341 million, an increase of $18 million over the previous year with an equity ratio of 68%. Bank loans were $32 million at year end, down from $41 million the previous year.
- Cash flows from operations despite lower sales reflected both stronger on-farm cash position and lower costs of the business to be $25.4 million for 2016/2017, compared to $14.4 million in 2015/2016.
- Research and Development continued to be strong with a spend of $13.9 million being 6.85% of revenue this year ($16.9 million and 8% prior year).
- In conjunction with improved industry conditions, a more positive milk price and LIC’s ongoing transformation programme, further improvements are expected in the 2017-18 financial year.

GOVERNANCE REPORT

Role of Board of Directors

The Board is responsible for the direction and control of LIC's activities. It is committed to the guiding values of the Company, integrity, respect and innovation to improve products and service to its Shareholders. Legislation, the NZAX Listing Rules and the Constitution establish the Board's responsibility and include provisions for how the Co-operative will operate.

Responsibility

The Board is responsible for setting the strategic direction, approval of significant expenditures, policy determination and stewardship of the Co-operative's assets. The Board and the security holders shall not, except with the written consent of the Minister of Primary Industries, or other relevant Minister, exercise any of their rights, directions and powers under or alter the Constitution so as to cause or permit the Company to cease to be a Co-operative supplying goods and services to Shareholders.

Co-operative Principles

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

1 The Company will remain a Co-operative Company;

2 The Company is controlled by Co-operative Control Shareholders who have voting rights in proportion to their use of the Company’s qualifying products and services;

3 Core products and services are made available to all Shareholders at fair commercial prices;

4 Products and services which benefit Shareholders and which otherwise might not be made available, are developed and made available to Shareholders, provided that the company receives a commercial return; and

5 Shareholders co-operate with the Company and each other including the sharing of information to promote their common interests.

Pricing of Products and Services

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

Principal Activities

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

1 Measurement and evaluation of growth, yield of milk or milk constituent and feed conversion efficiency of livestock, and any other relevant decisions on breeding and management of livestock;

2 The development and commercial application of artificial breeding for livestock; and

3 Improvement of livestock and farm management practices through products based on genetics, biotechnology, automation, information and advice.

Board Composition

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

Current Board

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

Appointed Directors are Mr P Lough, Mrs A Foote and Ms C Kinser Reed.

Election of Directors

The Directors elected by the Southland region (Mr M King and Mr A Reid) retired by rotation in 2017. Mr King, being eligible, offered himself for re-election and Mr Reid retired. Four nominations were received for the two positions on the Board, resulting in Mr M King being re-elected for a further four year term effective 1 June 2017 and Mr M Ross being elected by the Shareholders for a four year term, also effective 1 June 2017.

Appointed Director Mr P Lough was due to retire, by rotation, in October 2016. At the AGM Mr Lough was reappointed for a further 12 months and will retire in October 2017.

Committees

The Board uses committees to facilitate effective decision-making.

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

The Audit Committee meets at least four times a year and met four times in 2016/17.

Disclosure Committee
This Committee assists the Board and Company in ensuring that all material information is identified, reported for review by the Committee, and if required, disclosed in a timely manner to the NZX. The Committee comprises two Directors and Senior Executives and is chaired by the Chair of the Board, Mr M King.

The Committee meets as and when required and did not meet in 2016/17.

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

The Committee meets at least four times a year and met four times in 2016/17.

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

The Committee meets as and when required and met once in 2016/17. The Board of the Company determined that this Committee's role is now undertaken by the full Board and that there is no longer a need for a separate Shareholder Committee. The Board resolved on 14 September 2016 to disolve the Shareholder Committee with immediate effect.

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

The Committee meets as and when required and met twice in 2016/17.

Meetings
The Board met eight times in 2016/17 with three additional strategy session days.

Policies
LIC has in place policies including delegated authorities, a code of ethics, continuous disclosure, legislative compliance, risk management and charters/terms of reference for the Parent's Board and Board Sub-Committees.

Share Trading and Disclosure
The Company has adopted a 'Share Trading and Disclosure Policy' for Directors, Councillors, Restricted Persons and other Employees wanting to deal in the securities of the Company.
The Policy outlines:
(a) when Directors, Councillors, Restricted Persons and other Employees of the Company may deal in the securities of the Company;
(b) procedures to reduce the risk of insider trading; and
(c) disclosure requirements.

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

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

SHAREHOLDING

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

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

Interests Register
A Directors' Interest Register is maintained and Directors' interest in transactions during the financial year are outlined on page 37 of the report.

STATUTORY REQUIREMENTS

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

ENTRIES IN THE INTERESTS REGISTER

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

Directorships and Memberships

G Baldwin:
Director of Ballance Agri-Nutrients Ltd, Trinity Lands Ltd and Longview Trust Board.

A Foote:
Director of Z Energy Ltd and its subsidiaries, New Zealand Local Government Funding Agency Ltd, BNZ Life Insurance Ltd, BNZ Insurance Services Ltd, Museum of New Zealand Te Papa Tongarewa and Television New Zealand Limited.

D Jensen:
Director of Farmland Co-operative Society Limited, shareholder of Figured Limited.

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

C Kinser Reed:
Director of Cloud Security Alliance (NZ Chapter), EROAD, Talent International. Advisor to Palantir Technologies and University of Waikato Cyber Security Lab.

P Lough:
Director of Methven Ltd, Port of Nelson Ltd, MyFarm Trustee Limited and Genera Ltd.

S Poole:
Director and owner of Poole Brothers Limited, Director of La Salle House Limited.

A Reid:
Director of W.A. Systems (2003) Ltd, Farm Electric Ltd and Reid Systems Ltd.

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

M Jagger:
Director of Marsden Maritime Holdings Ltd and Co-operative Business New Zealand.

ENTRIES IN THE INTEREST REGISTER

Participation in the Company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2017/2018 season. Directors participating in the scheme include:

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

(a) Share Dealings by Directors
As at 31 May 2017 the following Directors, (either in their own names and/or in the name(s) of their dairy farming entities) as qualifying users of LIC's products and services, are holders of the following shares:

	2017		2016	
Director	**Co-operative**	**Investment**	**Co-operative**	**Investment**
G Baldwin	3,028	-	3,092	-
M Jagger	1,540	21,967	1,327	21,967
D Jensen	1,335	2,710	1,593	2,710
M King	10,715	23,365	7,002	21,869
S Poole	1,988	18,939	2,211	18,939
A Reid	4,982	90,240	6,609	90,240
A Watters	754	7,428	1,050	7,428

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

(b) Loans to Directors of the Parent and Subsidiaries
There have been no loans during the year.

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

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

DIRECTORS AND REMUNERATION

Directors of the Company received the following remuneration for the twelve months ending 31 May 2017:

In thousands of New Zealand dollars

	Fees
M King	116
G Baldwin	49
A Foote	69
M Jagger	49
D Jensen	49
C Kinser Reed	61
P Lough	62
S Poole	49
A Reid	49
A Watters	49
	602

Directors of subsidiaries of the Company received the following remuneration for the twelve months ending 31 May 2017:

In thousands of New Zealand dollars

	Fees
R Dungey	28
E Ruiz	54
	82

Except as set out above, no other Directors of subsidiaries received any remuneration or other benefits in their role as a Director of that subsidiary. The remuneration of employees that receive more than $100,000 as a result of employee remuneration (and other benefits) is included in the Employees' Remuneration table on page 37. The Directors of the Company's subsidiaries are set out below:

LIC Agritechnology Company Limited: Murray King, Gray Baldwin, Abby Foote, Murray Jagger, David Jensen, Candace Kinser Reed, Philip Lough, Steven Poole, Alvin Reid and Alison Watters

Livestock Improvement (NZ) Corporation Limited: Linda Cooper, Murray King and Wayne McNee
LIC Deer Limited: Linda Cooper, Geoffrey Corbett and Wayne McNee
Animal Breeding Services Limited: Linda Cooper and Wayne McNee
LIC Automation Limited: Linda Cooper, Paul Littlefair, Wayne McNee and Richard Spelman
LIC Johnes Company Limited: Linda Cooper, Wayne McNee and Richard Spelman
LIC Ventures NO.3 Limited: Paul Littefair and Wayne McNee
Livestock Improvement Pty Limited: Geoffrey Corbett, Robert Dungey, Andrew Fear
Farmkeeper Pty Limited: Geoffrey Corbett, Robert Dungey and Andrew Fear
Overland Corner Holdings Pty Limited: Geoffrey Corbett, Robert Dungey and Andrew Fear
Paul Shewen & Co Pty Limited: Geoffrey Corbett, Robert Dungey and Andrew Fear
Beacon Automation Pty Limited: Linda Cooper, Jock Roberts and Geoffrey Corbett
Livestock Improvement Corporation (UK) Limited: Linda Cooper, Wayne McNee and Mark Ryder
LIC USA Limited: Linda Cooper and Wayne McNee
LIC Automation USA Limited: Geoffrey Corbett and Wayne McNee
LIC Ireland Limited: Linda Cooper, Mark Ryder and Wayne McNee
NZ Brasil Producao Animal Ltda: Linda Cooper

Employees' Remuneration

During the period 1 June 2016 to 31 May 2017 the following numbers of employees (not being Directors) received total remuneration, including benefits, of at least $100,000:

Remuneration Range (Gross)	Returning	Cessations	Total
100,000 – 109,999	40	2	42
110,000 – 119,999	23	3	26
120,000 – 129,999	18	1	19
130,000 – 139,999	10		10
140,000 – 149,999	12	1	13
150,000 – 159,999	9	2	11
160,000 – 169,999	1	1	2
170,000 – 179,999	6	2	8
180,000 – 189,999	4	1	5
190,000 – 199,999	5		5
200,000 – 209,999	2		2
210,000 – 219,999	4		4
230,000 – 239,999	1		1
240,000 – 249,999	1		1
250,000 – 259,999	1		1
260,000 – 269,000	2		2
270,000 – 279,999	1		1
280,000 – 289,999		1	1
290,000 – 299,999	1		1
440,000 – 449,999	1		1
850,000 – 859,999	1		1
Total	143	14	157

RESOLUTION OF DIRECTORS
DATED 19 JULY 2017 CONFIRMING THE CO-OPERATIVE STATUS OF LIVESTOCK IMPROVEMENT CORPORATION LIMITED

RESOLVED THAT:

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

In the opinion of the Board of Directors, the Company has been a Co-operative Company from that date to the end of the accounting year ended 31 May 2017.

The grounds for this opinion are:

1) The principal activity of the Company involves supplying artificial breeding, herd testing, herd recording and other services to transacting Shareholders (as that term is defined in section 4 of the Act). Accordingly, the principal activity of the Company is, and is stated in the Constitution of the Company as being, a Co-operative activity (as the term is defined in section 3 of the Act); and

2) Not less than 60 percent of the voting rights attached to shares in the Company are held by transacting Shareholders.

Spread of Shareholders as at 31 May 2017

Size of Shareholding	Number of Shareholders	Investment Shares Held	% of Total
1-999	1,496	620,267	2.10
1,000-1,999	1,241	1,867,051	6.32
2,000-2,999	1,166	2,873,499	9.73
3,000-3,999	761	2,641,895	8.95
4,000-4,999	561	2,491,910	8.44
5,000-9,999	1,144	7,925,447	26.84
Over 10,000	514	11,108,521	37.62
Total	**6,883**	**29,528,590**	**100%**

Twenty Largest Shareholdings of Quoted Securities

	Investment Shares Held	% of total Shares
Anglesea Consulting Limited	794,027	2.69
David Lockhart Easton & Anthea Clare Easton	337,803	1.14
Custodial Services Limited - Employee Share Scheme	240,666	0.82
Sim Brothers Limited C/- RJ & DR Sim	144,965	0.49
Mark Francis Slee & Devon Mathieson Slee	138,806	0.47
Wills Group Limited	127,039	0.43
Malrose Properties Limited C/- MJ & RF Piggott	101,756	0.34
Farnley Tyas Farms Limited C/- Peter Mansell	93,188	0.32
Bishop Farms Oxford Limited	87,427	0.30
Laird Farm Limited C/- Cameron Laird	84,164	0.29
Schmidt Farms Limited	76,307	0.26
The Grass Market Company Limited	72,654	0.25
Christopher John Stark & Graham Carr - Deebury Pastoral Partnership - Ealing	70,433	0.24
Mangatarata Farms Limited C/- KF Jones	67,449	0.23
Cayuga Limited C/- R Easton	65,396	0.22
Broad Acres Farms Limited C/- J & Y Lang	63,494	0.22
Gillian Patricia Alice Gow & James Platt Gow & Matthew Platt Gow - Gow Family Trust	59,400	0.20
Graham Carr & Christopher John Stark - Deebury Pastoral Partnership - Maronan	58,031	0.20
South Hilton Ltd C/- BC & IA Bolt	54,067	0.18
Stuart Bruce Bay & Doris Beth Bay	52,825	0.18
		9.47

Credit Rating Status

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

Substantial Security Holders

As at 31 May 2017, no persons have notified the Company that they are substantial product holders of the Company as referred to in Section 274 of the Financial Markets Conduct Act 2013.

Donations

The Company made donations totalling $26,047 during the year ended 31 May 2017 (2016: $57,914).

Non-Standard Listing

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

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

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

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

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

1 Rule 1.6.1 (previously Rule 1.1.2) in respect of the definition of "Renounceable" to refer to a Right or offer that is transferrable to any person who is entitled to hold the Securities to which the Right or offer relates.

2 Rule 3.2.2 to allow for the following aspects of the Company's corporate governance structure:

(a) Directors to be nominated by Co-operative Control Shareholders, by region, pursuant to clause 25.4(b) and Schedule 3 of the Constitution;

(b) Certain qualifications to be required of directors as set out in paragraphs 1(a) and 2 of Schedule 3 of the Constitution;

(c) The nomination procedure for directors as set out in paragraph 1(b) of Schedule 3 of the Constitution.

3 Rule 3.2.3 to permit the provisions of paragraph 1(e) of Schedule 3 of the Constitution to allow for the filling of casual vacancies by the Board, where the position becomes vacant less than 8 months before the date on which the director is due to retire by way of rotation.

4 Rule 3.2.6 to allow for the rotation of Elected Directors as set out in clause 26 and clauses 1(c) and (d) of Schedule 3 of the Constitution whereby Elected Directors are due to retire on the 1st day of June in each year, on a regional basis, so that a rotation schedule of 4 years for Elected Directors is permitted.

5 Rule 7.6.3 to allow clause 3.6.2 of the Constitution to permit financial assistance to be given to an Approved Holding Entity.

6 Rule 8.2.1 is not applicable in the case of LIC, given its status as a Non-Standard NZAX Issuer, and as such LIC is not required to comply with the restrictions of that Rule, so that clause 20 of the Constitution (which provides for a more extensive lien on Securities) is allowed.

7 Rule 11.1.5 allows an NZAX Issuer to include restrictions on the issue, acquisition or transfer of Equity Securities in its Constitution, subject to the prior approval of NZX. Restrictions in the Constitution requiring approval from NZX are as follows:

(a) Clause 3.2.2 of the Constitution restricts the issue of Voting Securities with the aim of ensuring that LIC remains a co-operative company controlled by its Co-operative Control Shareholders (whose control is directly proportionate to the amount of products and services purchased by each such shareholder);

(b) Clause 3.2.3 of the Constitution restricts the issue and transfer of Securities so that they are only held by Users or Employee Scheme Holders (or by other persons in certain specified circumstances). Again, this aims to protect the fundamental nature of a co-operative company;

(c) Clause 3.2.3A of the Constitution prohibits third party interests by prohibiting a Shareholder from holding Shares on behalf of any person who is not a User (subject to exceptions in the case of Family Trusts and the Employee Share Purchase Scheme);

(d) Clauses 10.1(b) and (d) of the Constitution place restrictions on the persons who may hold Investment Shares so that such shares are only held by a Co-operative Control Shareholder, or the Company, or Approved Holding Entity, or an Employee Scheme Holder (or by other persons in certain limited specified circumstances);

(e) Clauses 10.2 to 10.7 (inclusive) of the Constitution place restrictions on how Investment Shares may be held. Clause 10.3 imposes a Maximum Investment Shareholding of not more than 5 percent of the total number of Investment Shares currently on issue. Clause 10.4 provides for disposal of Investment Shares upon a person ceasing to be a Co-operative Control Shareholder. Clause 10.6 permits an Approved Holding Entity to hold Investment Shares to administer any Voluntary Investment Scheme and Dividend Reinvestment Plan. Clause 10.7 provides for shares to be held in Brokers' Accounts;

(f) Clause 10.8 of the Constitution authorises the Board to establish an Employee Share Purchase Scheme which may hold up to 5 percent of the total number of Investment Shares currently on issue;

(g) Clause 13.5 of the Constitution permits the Board to refuse to register transfers of Investment Shares where the transfer would breach the restrictions referred to in paragraph 7(e), or would otherwise be in breach of the Constitution, and clause 13.5A empowers the Board to require proof that shares are not being acquired for the benefit of third parties;

(h) The consent of the Minister for Primary Industries (or other relevant Minister) is required under the Dairy Industry Restructuring Act 2001 to any changes to who may hold shares, maximum voting rights and postal voting and this requirement must therefore take precedence over all other provisions in the Constitution and the Listing Rules.

8 NZX has approved differences in text between certain Listing Rules and the provisions of the Constitution as follows:

(a) The definition in clause 2.1 of "Average Market Capitalisation" has been amended to take account of the fact that it is only the Investment Shares, which will have a market capitalisation value, and therefore the nominal value of the Co-operative Control Shares will be added to that value. This definition is relevant in relation to section 9 of the Listing Rules in relation to Major Transactions and Material Transactions;

(b) Clause 3.5.1(a) of the Constitution reflects Rule 7.3.1(a). However that Rule only requires approval to be given by the classes of Quoted Equity Securities. As the Investment Shares are the only class of shares quoted, the definition in the Constitution excludes the word "Quoted", so that under clause 3.5.1(a) the approval of each class of Equity Securities is required regardless of whether or not they are Quoted;

(c) Clause 3.5.2(a) of the Constitution provides for the reference in Rule 7.3.1(a) to "Quoted Equity Securities" to be deemed a reference to "Equity Securities", as the Co-operative Control Shares are not Quoted;

(d) Clause 3.5.2(b) of the Constitution provides for the reference in Rule 7.3.4(c) to "Equity Securities carrying Votes" to be deemed a reference to "Investment Shares" as Investment Shares do not have voting rights (except in very limited circumstances);

(e) Paragraph 6.1 of Schedule 1 of the Constitution reflects Rule 6.2.5; however it applies to notices of meetings of Shareholders rather than of Quoted Security holders.

DISCLOSURE OF FINANCIAL ASSISTANCE AS REQUIRED UNDER THE COMPANIES ACT 1993

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

LIC is required to make disclosures to all Shareholders in respect of this financial assistance. The exact amount of the net costs depends upon the extent to which Shareholders participate in the Dividend Plan. However the total amount of net costs in the next twelve months is estimated to be in the region of $30,000.

In relation to the financial assistance provided for the Dividend Plan, the LIC Board resolved on 19 July 2017 that LIC should provide the financial assistance referred to above ("Dividend Plan Financial Assistance"), for the period of 12 months commencing 10 working days after sending this disclosure to Shareholders, and that the giving of the Dividend Plan Financial Assistance is in the best interest of LIC and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Dividend Plan Financial Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

(a) The Dividend Plan Financial Assistance enables LIC to provide Shareholders with an efficient means of acquiring additional Investment Shares in LIC without incurring transaction costs which they would otherwise incur;

(b) The Dividend Plan Financial Assistance is available to all eligible Shareholders, giving equal opportunity to participate in the benefits of the Dividend Plan;

(c) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new shares are being issued under the Dividend Plan;

(d) The additional Investment Shares will be purchased by Craig Investment Partners Limited ("Craigs") at the NZAX market price and participating shareholders will pay the average NZAX market price paid by Craigs on market for those Shares;

(e) The Dividend Plan will enhance the liquidity in the market for the Investment Shares, providing a more liquid market for both participating and non-participating Shareholders wishing to sell those Shares;

(f) The Dividend Plan enables LIC to offer Shareholders a mechanism to reinvest dividends in Investment Shares without resulting in unnecessary new capital being raised through the issue of new shares; and

(g) The amount of financial assistance is minimal in comparison to the benefits arising out of the Dividend Plan for Shareholders and LIC.

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

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

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 19 July 2017 that LIC should provide the financial assistance referred to above ("VIS Assistance") for the period of 12 months commencing 10 working days after the date of sending this disclosure to Shareholders, and that the giving of the VIS Assistance is in the best interests of LIC and is a benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the VIS Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

(a) The VIS Assistance enables LIC to provide shareholders with an efficient means of acquiring additional Investment Shares in LIC without incurring transaction costs which they would otherwise incur;

(b) The VIS Assistance is available to all shareholders, giving equal opportunity to participate in the benefits of the Investment Scheme;

(c) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the Investment Scheme;

(d) The additional Investment Shares will be purchased by Craigs at the NZAX market price and participating Shareholders will pay the average NZAX market price paid by Craigs on market for those Shares;

(e) The Investment Scheme will enhance the liquidity in the market for the Investment Shares, providing a more liquid market for both participating and non-participating Shareholders wishing to sell Investment Shares;

(f) The Investment Scheme enables LIC to offer Shareholders a mechanism to invest 4 percent of their annual spend on purchases of Qualifying Products and Services in Investment Shares, without resulting in unnecessary new capital being raised through the issue of new Investment Shares; and

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

C **LIC Employee Share Scheme:** LIC proposes to provide financial assistance to those employees who elect to participate in the LIC Employee Share Scheme ("Employee Scheme") which from the 1 April 2011 has been managed by Craig Investment Partners Limited (Craigs), with Custodial Services Limited acting as custodian. LIC proposes to pay the Manager's and Custodian's fees and expenses (including brokerage). The amount of the Manager's fee will depend on how many employees participate in the Employee Scheme and the level of their contribution. An estimate of the amount of the financial assistance is $24,000.

The Board of LIC resolved on 19 July 2017 that LIC should provide the financial assistance referred to above ("Employee Scheme Assistance") for the period of 12 months commencing 10 working days after the date of sending this disclosure to Shareholders, and that the giving of the Employee Scheme Assistance is in the best interests of LIC, and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Employee Scheme Assistance is given are fair and reasonable, to LIC, and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

(a) The Employee Scheme will be a valuable addition to the benefits available to the employees of LIC and will assist in retaining them as valuable staff;

(b) The Employee Scheme is a method of aligning the interests of employees with the interests of Shareholders and is an effective means of motivating future performance of the employees. This is expected to bring about an increase in the value of the Investment Shares;

(c) Shareholders will not be diluted or otherwise disadvantaged as no new Investment Shares are being issued under the Employee Scheme;

(d) The additional Investment Shares will be purchased through Craigs at the NZAX market price;

(e) The Employee Scheme will enhance the liquidity in the market for the Investment Shares, providing a more liquid market for Shareholders wishing to sell those Shares;

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