Livestock Improvement Corporation Limited (LIC)

ANNUAL REPORT

Year Ended 31 May 2013

www.lic.co.nz

Income Statement
For the year ended 31 May 2013

In thousands of New Zealand dollars	Note	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Revenue	6	193,624	174,744	186,539	167,612
Other income	7	5,844	2,727	5,833	2,721
Purchased materials		(29,204)	(27,796)	(27,322)	(25,952)
Staff expenses	10	(82,998)	(75,578)	(79,947)	(72,563)
Depreciation	13	(7,301)	(6,515)	(6,902)	(6,156)
Amortisation	14	(6,403)	(4,436)	(6,403)	(4,436)
Impairment	8	(325)	(357)	(320)	(357)
Share of loss of equity accounted associates	32	-	(40)	-	-
Other expenses	9	(45,939)	(43,498)	(44,432)	(41,908)
Earnings before finance activities, taxation and fair value adjustments - elite biological assets		**27,298**	**19,252**	**27,047**	**18,962**
Finance income	11	2,144	2,120	2,179	2,088
Finance expenses	11	(962)	(582)	(873)	(572)
Fair value adjustments - elite biological assets	15	3,784	13,047	3,784	13,047
Earnings before taxation		**32,264**	**33,837**	**32,137**	**33,524**
Tax expenses on fair value adjustments - elite biological assets		(1,060)	(3,653)	(1,060)	(3,653)
Tax expenses - other		(7,546)	(5,797)	(7,524)	(5,936)
Total tax expense	12	**(8,606)**	**(9,450)**	**(8,584)**	**(9,589)**
Profit for the year attributable to the owners of the Company		**23,658**	**24,387**	**23,553**	**23,935**
Earnings per share	23				
Basic and diluted earnings per investment share (NZD)		0.801	0.826		

Supplementary note to the Income Statement

	2013	2012	2013	2012
Profit for the year	**23,658**	**24,387**	**23,553**	**23,935**
(Profit)/loss on fair value of elite biological assets	(3,784)	(13,047)	(3,784)	(13,047)
Tax effect on (profit)/loss on fair value of elite biological assets	1,060	3,653	1,060	3,653
Underlying net earnings excluding elite biological assets and tax thereon	**20,934**	**14,993**	**20,828**	**14,542**

Statement of Comprehensive Income
For the year ended 31 May 2013

In thousands of New Zealand dollars	Note	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Profit for the year		**23,658**	**24,387**	**23,553**	**23,935**
Other comprehensive income (net of income tax)					
Effective portion of changes in fair value of cash flow hedges		9	26	9	26
Net change in fair value of available for sale financial assets		(76)	19	-	-
Revaluation of property plant and equipment		696	219	443	(81)
Other comprehensive income for the year, net of income tax		629	264	452	(55)
Total comprehensive income for the year		**24,287**	**24,651**	**24,005**	**23,880**
Attributable to:					
Owners of the company		24,287	24,651	24,005	23,880
Total comprehensive income for the year		**24,287**	**24,651**	**24,005**	**23,880**

Balance Sheet
As at 31 May 2013

In thousands of New Zealand dollars	Note	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Assets					
Fixed assets	13	71,073	67,073	63,940	60,203
Intangible assets	14	35,829	29,152	35,254	28,468
Biological assets	15	89,679	85,895	89,679	85,895
Investments & derivatives	16	1,413	1,504	922	900
Investments in Subsidiaries		-	-	11,631	11,740
Advances to subsidiaries		-	-	3,824	3,694
Total non-current assets		**197,994**	**183,623**	**205,250**	**190,899**
Cash and cash equivalents	20	19,727	16,242	18,370	14,791
Inventories	18	9,005	7,550	8,602	7,194
Biological assets	15	2,481	2,426	828	864
Investments & derivatives	16	9,513	22,275	9,513	22,275
Trade receivables	19	34,448	26,082	38,527	30,276
Prepayments		2,327	2,303	2,321	2,300
Total current assets		**77,500**	**76,878**	**78,161**	**77,701**
Total assets		**275,494**	**260,501**	**283,411**	**268,599**
Equity					
Share capital		58,464	58,464	58,464	58,464
Reserves		25,024	24,395	22,607	22,155
Retained earnings		125,441	113,346	131,624	119,635
Total equity		**208,929**	**196,205**	**212,696**	**200,254**
Liabilities					
Provisions	24	4,505	4,125	4,433	4,052
Deferred tax liability	17	30,950	29,858	30,520	29,507
Total non-current liabilities		**35,455**	**33,983**	**34,953**	**33,559**
Co-operative Control Shares	22	5,441	5,117	5,441	5,117
Trade & other payables	25	21,324	21,589	22,074	22,146
Advances from subsidiaries		-	-	3,874	3,874
Provision for tax		2,342	1,587	2,400	1,658
Provisions	24	2,003	2,018	1,973	1,991
Total current liabilities		**31,110**	**30,312**	**35,762**	**34,787**
Total liabilities		**66,565**	**64,296**	**70,715**	**68,346**
Total equity and liabilities		**275,494**	**260,501**	**283,411**	**268,599**

Director

Date: 24 July 2013

Director

Date: 24 July 2013

Statement of Cash Flows
For the year ended 31 May 2013

In thousands of New Zealand dollars	Note	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Net cash from/(used in) operating activities					
Cash provided from:					
Receipts from customers		189,740	172,201	183,786	164,584
Sale of biological assets		1,066	1,071	95	78
Finance income received		1,785	2,065	1,778	2,098
		192,591	**175,338**	**185,659**	**166,759**
Cash applied to:					
Payments to suppliers and employees		(159,471)	(139,970)	(152,763)	(132,988)
Acquisition of biological assets		(25)	-	(19)	-
Finance expense paid		(347)	(147)	(420)	(138)
Income tax paid		(6,980)	(7,504)	(6,934)	(7,448)
		(166,823)	**(147,621)**	**(160,136)**	**(140,573)**
	30	**25,768**	**27,716**	**25,523**	**26,186**
Net cash from/(used in) investing activities					
Cash provided from:					
Sale of term investments		12,000	15,000	12,000	15,000
Sale of shares		-	155	-	155
Repayment of term loan		5,000	-	5,000	-
Sale of Property, Plant and Equipment		538	409	482	355
Repayment of advances to subsidiaries		-	-	911	1,872
		17,538	**15,564**	**18,393**	**17,383**
Cash applied to:					
Acquisition of term investments		(4,000)	(12,000)	(4,000)	(12,000)
Acquisition of shares		(55)	-	(21)	-
Acquisition of intangibles		(13,189)	(8,460)	(13,189)	(8,456)
Acquisition of Property, Plant and Equipment		(10,776)	(9,894)	(10,393)	(9,591)
Advances to subsidiaries		-	-	(1,034)	(922)
		(28,020)	**(30,354)**	**(28,637)**	**(30,969)**
		(10,482)	**(14,790)**	**(10,244)**	**(13,586)**
Net cash from/(used in) financing activities					
Cash provided from:					
Co-operative Shares paid up		905	1,167	905	1,167
		905	**1,167**	**905**	**1,167**
Cash applied to:					
Repurchase of Co-operative Shares		(581)	(378)	(581)	(378)
Dividends paid to Shareholders of the Group		(11,564)	(13,280)	(11,564)	(13,280)
Interest paid on Co-operative Shares		(460)	(434)	(460)	(434)
		(12,605)	**(14,092)**	**(12,605)**	**(14,092)**
		(11,700)	**(12,925)**	**(11,700)**	**(12,925)**
Net increase/(decrease) in cash balances		**3,586**	**2**	**3,579**	**(325)**
Cash balances at beginning of year		16,242	16,281	14,791	15,117
Effect of exchange rate changes on cash held		(101)	(41)	-	-
Closing cash balances		**19,727**	**16,242**	**18,370**	**14,791**

Consolidated Statement of Changes in Equity
For the year ended 31 May 2013

Consolidated

Attributable to equity holders of the Parent

In thousands of New Zealand dollars	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Total Equity
Balance at 1 June 2011	58,464	(15)	85	24,061	102,239	184,834
Total comprehensive income for the year						
Profit					24,387	24,387
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	-	26	-	-	-	26
Net change in fair value of available for sale financial assets	-	-	19	-	-	19
Revaluation of property plant and equipment	-	-	-	219	-	219
Total other comprehensive income	-	26	19	219	-	264
Total comprehensive income for the year	**-**	**26**	**19**	**219**	**24,387**	**24,651**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	-	-	-	-	(13,280)	(13,280)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(13,280)**	**(13,280)**
Balance at 31 May 2012	**58,464**	**11**	**104**	**24,280**	**113,346**	**196,205**
Balance at 1 June 2012	58,464	11	104	24,280	113,346	196,205
Total comprehensive income for the year						
Profit					23,658	23,658
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	-	9	-	-	-	9
Net change in fair value of available for sale financial assets	-	-	(76)	-	-	(76)
Revaluation of property plant and equipment	-	-	-	696	-	696
Total other comprehensive income	-	9	(76)	696	-	629
Total comprehensive income for the year	**-**	**9**	**(76)**	**696**	**23,658**	**24,287**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	-	-	-	-	(11,564)	(11,564)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(11,564)**	**(11,564)**
Balance at 31 May 2013	**58,464**	**20**	**28**	**24,976**	**125,441**	**208,929**

Consolidated Statement of Changes in Equity (continued)
For the year ended 31 May 2013

Parent

In thousands of New Zealand dollars	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Total Equity
Balance at 1 June 2011	58,464	(15)	-	22,226	108,979	189,654
Total comprehensive income for the year						
Profit					23,935	23,935
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	-	26	-	-	-	26
Revaluation of property plant and equipment	-	-	-	(81)	-	(81)
Total other comprehensive income	-	26	-	(81)	-	(55)
Total comprehensive income for the year	**-**	**26**	**-**	**(81)**	**23,935**	**23,880**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	-	-	-	-	(13,280)	(13,280)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(13,280)**	**(13,280)**
Balance at 31 May 2012	**58,464**	**11**	**-**	**22,144**	**119,635**	**200,254**
Balance at 1 June 2012	58,464	11	-	22,144	119,635	200,254
Total comprehensive income for the year						
Profit					23,553	23,553
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	-	9	-	-	-	9
Revaluation of property plant and equipment	-	-	-	443	-	443
Total other comprehensive income	-	9	-	443	-	452
Total comprehensive income for the year	**-**	**9**	**-**	**443**	**23,553**	**24,005**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	-	-	-	-	(11,564)	(11,564)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(11,564)**	**(11,564)**
Balance at 31 May 2013	**58,464**	**20**	**-**	**22,587**	**131,624**	**212,696**

Notes to the Financial Statements
For the year ended 31 May 2013

1 Accounting entity

Livestock Improvement Corporation Limited ('LIC' or the 'Parent') is a company domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and listed on the Alternative Board of the New Zealand Stock Exchange Limited ('NZAX'). The Parent is an issuer for the purpose of the Financial Reporting Act 1993 and its financial statements comply with that Act.

These financial statements of LIC, as at and for the year ended 31 May 2013, comprise LIC and its subsidiaries (together referred to as the 'Group').

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

2 Basis of preparation

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

The financial statements were approved by the Board of Directors on 24 July 2013.

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

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

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

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

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

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

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

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

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.

3. Significant accounting policies

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

(a) *Basis of consolidation*

(i) Subsidiaries

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

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

(ii) Associates

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

(iii) Transactions eliminated on consolidation

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

(b) *Foreign currency*

(i) Foreign currency transactions

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to New Zealand dollars at exchange rates at the dates of the transactions.

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

3. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

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

(d) Fixed assets

(i) Recognition and measurement

Items of property, plant and equipment, except for land and buildings, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Land and buildings are revalued to market value at least every 3 years, or when a substantial movement in values has occurred.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

- Buildings 30-40 years
- Plant and Equipment 5-7 years
- Vehicles 5 years
- Furniture and Fittings 5-10 years
- Computers 3-5 years

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

(e) Intangible assets

(i) Goodwill

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

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

(ii) Research and development

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

3. Significant accounting policies (continued)

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

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

(iii) Livestock Improvement Database
The Parent acquired the Livestock Improvement Database as part of its acquisition of the net assets and operations of the then Livestock Improvement Division of the New Zealand Dairy Board and the six Livestock Improvement Associations. Under the Dairy Restructuring Act 2001, the New Zealand Dairy Core Database, covering 46 identified fields of animal data, were defined. While the Livestock Improvement Database includes these defined fields, no specific value is attributed to the New Zealand Dairy Core Database.

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

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

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

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

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

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

- Elite breeding bulls; and
- Other livestock.

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

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

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

3. Significant accounting policies (continued)

(h) *Inventories*

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

(i) *Impairment*

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

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

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

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

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

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

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

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

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

(ii) Impairment of fixed assets and intangibles

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

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

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

3. Significant accounting policies (continued)

(j) Employee benefits

(i) Long-term employee benefits

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

(ii) Short-term benefits

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

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

(iii) Defined contribution plans

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

(k) Provisions

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

(i) ACC Partnership Programme

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

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

(l) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Services

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

(m) Government Grants

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

(n) Lease payments

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

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

3. Significant accounting policies (continued)

(o) *Finance income and expenses*

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of discount on provisions, dividends on Co-operative Control shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available-for-sale financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except where the borrowing costs are associated with qualifying assets, in which case they are capitalised.

(p) *Income tax*

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future and land that is recorded at fair value. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(q) *Share Capital*

Investment Shares

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

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

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

The financial statements have been prepared on a GST exclusive basis, with the exception of trade receivables and trade payables which are reported inclusive of GST.

(s) *Earnings per share*

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

3. Significant accounting policies (continued)

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

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

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1), (effective July 2012)
- IFRS 10 Consolidated Financial Statements (effective January 2013)
- IFRS 11 Joint Arrangements (effective January 2013)
- IFRS 12 Disclosure of Interests in other entities (effective January 2013)
- IFRS 13 Fair Value Measurement (effective January 2013)
- IAS 19 Employee Benefits (amended 2011), (effective January 2013)
- IAS 27 Separate Financial Statements (2011), (effective January 2013)
- IAS 28 Investments in Associates and Joint Ventures (2011), (effective January 2013)
- Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7), (effective January 2013)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32), (effective January 2014)
- IFRS 9 Financial Instruments (effective January 2015)

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

4. Determination of fair values

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

(a) *Land and buildings*

The fair value of land and buildings is based on market values. Fair values of land have been determined by using a direct comparison methodology and the fair value of buildings have been determined by using a capitalised rental methodology.

(b) *Biological assets*

The fair value of livestock held for trading is based on the market price of livestock of similar age, breed and genetic make-up.

The fair value of elite bulls, for which there is no active market, is determined using a discounted cash flow approach.

(c) *Investments in equity securities*

The fair value of investments in equity securities, accounted for as available-for-sale financial assets, is determined by reference to their quoted bid price at the reporting date. Where an active market price is not available for available-for-sale financial assets the market value is determined by using a valuation technique. The valuation technique adopted for the Group is an EBIT earnings multiple methodology, and recent arms length transactions. The earnings multiple is determined with reference to known entities in a like sector.

(d) *Derivatives*

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

Notes to the financial statements

5. Operating Segments

Information about reportable segments

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

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

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

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

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

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

- Farm Automation. Includes the provision of dairy automated technologies.

Other operating segments includes international operations, corporate services, research & development, diagnostic services, animal evaluation, human resources and leadership and governance support services for the Group. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2013 or 2012.

Information regarding the operations of each reportable segment is included below. Performance is measured based on segment profit before interest, finance expenses and income tax. Segment profit is used to measure performance as CODM believes that such information is the most relevant in evaluating the results of certain segments. The strategic business units offfer different products and services and are managed separately because they require different technology and operational strategies. Inter-segment pricing is determined on an arm's length basis.

Notes to the financial statements

5. Operating Segments (continued)

In thousands of New Zealand dollars	Genetics		Herd Testing		Farm Software		Farm Automation		Total Reportable Segments		Other		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
External revenues	82,238	70,910	25,152	25,479	42,851	36,397	11,985	13,386	162,227	146,171	37,241	31,300	-	-	199,468	177,471
Inter-segment revenue	2,763	3,354	-	-	-	-	-	-	2,763	3,354	713	678	(3,476)	(4,032)	-	-
Total revenue	85,001	74,264	25,152	25,479	42,851	36,397	11,985	13,386	164,990	149,525	37,954	31,977	(3,476)	(4,032)	199,468	177,471
Depreciation & amortisation	(1,913)	(1,513)	(2,317)	(1,975)	(2,156)	(1,784)	(763)	(549)	(7,149)	(5,822)	(6,555)	(5,129)	-	-	(13,704)	(10,950)
Reportable segment profit before income tax	46,447	36,731	8,689	10,187	21,061	17,313	2,159	2,925	78,355	67,156	(50,731)	(47,507)	-	-	27,623	19,649

Unallocated Amounts	2013	2012
Net finance income/expenses	1,182	1,538
Impairment	(325)	(357)
Share on loss of equity accounted	-	(40)
Fair value adjustments-elite biological assets	3,784	13,047
Consolidated profit before income tax	32,264	33,837

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 investments in associates, other financial assets and tax assets) by geographical location (of customer) are detailed below:

Geographical information

In thousands of New Zealand dollars	Revenues 2013	Revenues 2012	Non current assets 2013	Non current assets 2012
New Zealand	187,553	164,467	196,882	182,524
Australia	1,905	1,990	298	197
Ireland	2,978	3,154	335	407
United Kingdom	3,533	3,708	433	451
Other Countries	3,499	4,151	45	43
Total	199,468	177,471	197,994	183,623

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

6 Revenue

In thousands of New Zealand dollars

	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Sales of goods	121,819	107,438	114,913	100,618
Services	71,805	67,306	71,626	66,994
Total revenues	**193,624**	**174,744**	**186,539**	**167,612**

7 Other income

In thousands of New Zealand dollars

	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Government Grants	3,692	2,442	3,692	2,442
Other Income	2,152	286	2,141	279
	5,844	**2,727**	**5,833**	**2,721**

8 Impairment

In thousands of New Zealand dollars

	Note	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Impairment of goodwill	14	109	522	-	-
Revaluation of land & buildings		210	(165)	210	(165)
Impairment of investment		6	-	109	522
		325	**357**	**320**	**357**

During 2013 the goodwill held by the Group (investment in Parent), in relation to FarmKeeper, was impaired by $0.109 million (2012: $0.522 million).

Revaluation of land & buildings saw a net decrease in value of Innovation Farm of $0.210 million (2012: upwards revaluation of $0.165 million).

9 Other Expenses

The following items of expenditure are included in other expenses:

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Donations (primarily for National drought support paid to the Rural Support Trust)	25	3	25	3
Research and Development	12,848	10,825	12,848	10,825
Auditors' remuneration comprises:				
KPMG – audit services	144	136	144	136
KPMG – other audit-related services	7	2	7	2
Other Auditors	62	34	-	-

Other audit-related services include services in relation to the interim financial statements.

Research and Development expenses above is the total expenditure incurred across all departments and represents 6.64% of Revenue (2012: 6.19%).

10 Staff expenses

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Wages and salaries	75,714	69,218	72,842	66,480
Contributions to employee superannuation	3,066	2,789	3,038	2,779
Other employee expenses	4,218	3,571	4,067	3,305
	82,998	**75,578**	**79,947**	**72,563**

11 Finance income and expense

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Interest income on loans and receivables	2,004	1,859	2,118	1,964
Net foreign exchange gain	-	166	-	79
Dividend income on available-for-sale financial assets	141	95	61	45
Finance income	**2,144**	**2,120**	**2,179**	**2,088**
Interest expense	(149)	(148)	(149)	(138)
Dividend paid on Co-operative Control Shares	(459)	(434)	(459)	(434)
Net foreign exchange loss	(354)	-	(265)	-
Finance expense	**(962)**	**(582)**	**(873)**	**(572)**
Net finance income	**1,182**	**1,538**	**1,306**	**1,516**

12 Income tax expense

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Current tax expense				
Current period	7,604	5,962	7,600	5,890
Adjustments for prior periods	74	(171)	75	(32)
	7,678	5,791	7,675	5,858
Deferred tax expense				
Origination and reversal of temporary differences	1,433	3,784	1,413	3,811
Recognition of previously unrecognised tax losses	-	20	-	-
Adjustments for prior periods	(505)	(145)	(504)	(80)
	928	3,659	909	3,731
Total income tax expense	**8,606**	**9,450**	**8,584**	**9,589**

Reconciliation of tax expense

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Profit for the period	23,658	24,387	23,553	23,935
Total income tax expense	8,606	9,450	8,584	9,589
Profit excluding income tax	32,264	33,837	32,137	33,524
Income tax using the Company's domestic tax rate: 28% (2012: 28%)	9,034	9,474	8,998	9,387
Effect of tax rates in foreign jurisdictions	(46)	(40)	-	-
Non-deductible expenses	(116)	332	(149)	314
Under/(over) provided in prior periods	(266)	(316)	(265)	(112)
Total income tax expense	**8,606**	**9,450**	**8,584**	**9,589**

Income tax recognised directly in other comprehensive income

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Revaluation of buildings	164	999	105	929
Total income tax recognised directly in equity	**164**	**999**	**105**	**929**

Imputation credits

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
The imputation credits are available to shareholders of the Company	**13,964**	**11,763**	**13,088**	**10,831**

Notes to the financial statements

13 Fixed assets

Consolidated

In thousands of New Zealand dollars	Land	Buildings	Plant and equipment	Vehicles	Furniture and Fittings	Computers	Total
Cost or fair value							
Balance at 1 June 2011	31,517	18,438	30,168	12,926	2,138	14,113	109,300
Additions	-	395	4,891	3,042	559	1,030	9,917
Increases/(decreases) resulting from revaluations	(2,145)	2,840	-	-	-	-	695
Disposals	-	(2)	(243)	(1,776)	(21)	(3,655)	(5,696)
Forex Impact	-	-	(1)	(22)	(2)	(1)	(26)
Balance at 31 May 2012	**29,372**	**21,672**	**34,815**	**14,171**	**2,674**	**11,487**	**114,190**
Balance at 1 June 2012	29,372	21,672	34,815	14,171	2,674	11,487	114,190
Additions	-	1,776	3,522	2,707	660	2,133	10,798
Increases/(decreases) resulting from revaluations	274	(551)	-	-	-	-	(277)
Disposals	-	-	(191)	(1,925)	(15)	(21)	(2,152)
Forex impact	-	-	(12)	(51)	(4)	(6)	(73)
Balance at 31 May 2013	**29,646**	**22,897**	**38,135**	**14,902**	**3,316**	**13,592**	**122,487**
Depreciation and impairment losses							
Balance at 1 June 2011	-	(353)	(23,804)	(8,554)	(1,879)	(12,338)	(46,929)
Depreciation for the year	-	(886)	(2,654)	(1,836)	(143)	(997)	(6,515)
Adjustment due to revaluations	-	769	-	-	-	-	769
Disposals	-	1	236	1,658	21	3,630	5,545
Forex impact	-	-	8	6	-	(2)	13
Balance at 31 May 2012	**-**	**(469)**	**(26,214)**	**(8,726)**	**(2,001)**	**(9,707)**	**(47,117)**
Balance at 1 June 2012	-	(469)	(26,214)	(8,726)	(2,001)	(9,707)	(47,117)
Depreciation for the year	-	(1,076)	(3,030)	(2,067)	(176)	(952)	(7,301)
Adjustment due to revaluations	-	922	-	-	-	-	922
Disposals	-	-	190	1,820	1	19	2,030
Forex Impact	-	-	8	37	2	3	51
Balance at 31 May 2013	**-**	**(623)**	**(29,046)**	**(8,935)**	**(2,175)**	**(10,636)**	**(51,414)**
Carrying amounts							
At 1 June 2011	31,517	18,086	6,364	4,372	259	1,775	62,373
At 31 May 2012	**29,372**	**21,203**	**8,601**	**5,445**	**673**	**1,780**	**67,073**
At 1 June 2012	29,372	21,203	8,601	5,445	673	1,780	67,073
At 31 May 2013	**29,646**	**22,274**	**9,089**	**5,967**	**1,141**	**2,956**	**71,073**

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

Consolidated

In thousands of New Zealand dollars	
Land	10,667
Buildings	16,264

13 Fixed assets (continued)

Parent

In thousands of New Zealand dollars	Land	Buildings	Plant and equipment	Vehicles	Furniture and Fittings	Computers	Total
Cost or deemed cost							
Balance at 1 June 2011	26,637	17,116	29,614	11,854	2,061	14,006	101,288
Additions	-	382	4,831	2,791	552	1,022	9,579
Increases/(decreases) resulting from revaluations	(2,265)	2,709	-	-	-	-	444
Disposals	-	(2)	(218)	(1,686)	(21)	(3,645)	(5,571)
Balance at 31 May 2012	**24,372**	**20,205**	**34,228**	**12,960**	**2,592**	**11,383**	**105,740**
Balance at 1 June 2012	24,372	20,205	34,228	12,960	2,592	11,383	105,740
Additions	-	1,744	3,455	2,408	663	2,134	10,402
Increases/(decreases) resulting from revaluations	174	(392)	-	-	-	-	(219)
Disposals	-	-	(170)	(1,702)	(13)	(21)	(1,907)
Balance at 31 May 2013	**24,546**	**21,556**	**37,512**	**13,666**	**3,242**	**13,495**	**114,017**
Depreciation and impairment losses							
Balance at 1 June 2011	-	(155)	(23,347)	(7,924)	(1,823)	(12,271)	(45,520)
Depreciation for the year	-	(754)	(2,601)	(1,679)	(140)	(980)	(6,156)
Adjustment due to revalutions	-	650	-	-	-	-	650
Disposals	-	1	213	1,625	21	3,630	5,489
Balance at 31 May 2012	**-**	**(258)**	**(25,735)**	**(7,979)**	**(1,943)**	**(9,621)**	**(45,537)**
Balance at 1 June 2012	-	(258)	(25,735)	(7,979)	(1,943)	(9,621)	(45,537)
Depreciation for the year	-	(912)	(2,979)	(1,895)	(173)	(944)	(6,902)
Adjustment due to revalutions	-	557	-	-	-	-	557
Disposals	-	-	170	1,614	1	19	1,804
Balance at 31 May 2013	**-**	**(614)**	**(28,544)**	**(8,259)**	**(2,115)**	**(10,546)**	**(50,077)**
Carrying amounts							
At 1 June 2011	26,637	16,961	6,267	3,930	238	1,735	55,767
At 31 May 2012	**24,372**	**19,947**	**8,492**	**4,981**	**649**	**1,761**	**60,203**
At 1 June 2012	24,372	19,947	8,492	4,981	649	1,761	60,203
At 31 May 2013	**24,546**	**20,943**	**8,969**	**5,406**	**1,127**	**2,950**	**63,940**

Valuations of land and buildings were performed to determine the carrying value of these assets at 30 April 2013. These were performed by independent registered valuers, John Dunckley from Crighton Anderson Property & Infrastruture Limited, Ron Lockwood of Fergusson Lockwood & Associates and Jon G. Newson, and are based on methods/assumptions referred to in Note 4. The total fair value of land and buildings, as valued by independent valuers is $50.314 million.

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

Parent

In thousands of New Zealand dollars	
Land	7,326
Buildings	15,221

14 Intangible assets

Consolidated

In thousands of New Zealand dollars	**Goodwill**	**Database**	**Software**	**Total**
Cost				
Balance at 1 June 2011	4,052	10,500	38,298	52,850
Acquisitions – internally developed	-	-	8,520	8,520
Disposals	-	-	(61)	(61)
Balance at 31 May 2012	**4,052**	**10,500**	**46,758**	**61,310**
Balance at 1 June 2012	4,052	10,500	46,758	61,310
Acquisitions – internally developed	-	-	9,098	9,098
Acquisitions – separately acquired	-	-	4,091	4,091
Balance at 31 May 2013	**4,052**	**10,500**	**59,947**	**74,499**
Amortisation and impairment losses				
Balance at 1 June 2011	(2,849)	-	(24,352)	(27,201)
Amortisation for the year	-	-	(4,436)	(4,436)
Impairment	(522)	-	-	(522)
Balance at 31 May 2012	**(3,371)**	-	**(28,787)**	**(32,158)**
Balance at 1 June 2012	(3,371)	-	(28,787)	(32,159)
Amortisation for the year	-	-	(6,403)	(6,403)
Impairment	(109)	-	-	(109)
Balance at 31 May 2013	**(3,480)**	**-**	**(35,190)**	**(38,671)**
Carrying amounts				
At 1 June 2011	1,203	10,500	13,946	25,650
At 31 May 2012	**681**	**10,500**	**17,971**	**29,152**
At 1 June 2012	681	10,500	17,971	29,152
At 31 May 2013	**572**	**10,500**	**24,758**	**35,829**

14 Intangible assets (continued)

Parent *In thousands of New Zealand dollars*	**Intellectual Property**	**Database**	**Software**	**Total**
Cost				
Balance at 1 June 2011	168	10,500	38,298	48,966
Acquisitions – internally developed	-	-	8,517	8,517
Disposals	-	-	(61)	(61)
Balance at 31 May 2012	**168**	**10,500**	**46,754**	**57,422**
Balance at 1 June 2012	168	10,500	46,754	57,422
Acquisitions – internally developed	-	-	9,097	9,097
Acquisitions – separately acquired	-	-	4,091	4,091
Balance at 31 May 2013	**168**	**10,500**	**59,942**	**70,611**
Amortisation and impairment losses				
Balance at 1 June 2011	(168)	-	(24,351)	(24,519)
Amortisation for the year	-	-	(4,436)	(4,436)
Balance at 31 May 2012	**(168)**	-	**(28,787)**	**(28,955)**
Balance at 1 June 2012	(168)	-	(28,787)	(28,955)
Amortisation for the year	-	-	(6,403)	(6,403)
Balance at 31 May 2013	**(168)**	-	**(35,189)**	**(35,357)**
Carrying amounts				
At 1 June 2011	-	10,500	13,947	24,447
At 31 May 2012	-	**10,500**	**17,968**	**28,468**
At 1 June 2012	-	10,500	17,968	28,468
At 31 May 2013	-	**10,500**	**24,753**	**35,254**

At the reporting date there was $7.833 million of capital work in progress for Parent and Group which is currently not being amortised (2012: $6 million)

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

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

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

	Consolidated	
In thousands of New Zealand dollars	**2013**	**2012**
New Zealand Genetics	353	353
New Zealand Farm Software	219	328
	572	**681**

14 Intangible assets (continued)

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

In thousands of New Zealand dollars	Consolidated 2013	2012
New Zealand Farm Software	10,500	10,500
	10,500	**10,500**

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

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

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

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

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

The above estimates are sensitive in the following areas:

- Discount rate (8.7 percent post tax; 2012: 8.7 percent post tax); and
- Future projected cashflows (incorporates inflation of 3 percent: 2012: 3 percent)

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

15 Biological assets

Consolidated

In thousands of New Zealand dollars	Elite breeding bulls	Other livestock	Total
Balance at 1 June 2011	72,848	2,187	75,035
Decrease due to sales	-	(1,071)	(1,071)
Change in fair value less estimated point-of-sale costs - Elite	13,047	-	13,047
Change in fair value less estimated point-of-sale costs - Other	-	1,310	1,310
Balance at 31 May 2012	**85,895**	**2,426**	**88,321**
Non-current	85,895	-	85,895
Current	-	2,426	2,426
Balance at 31 May 2012	**85,895**	**2,426**	**88,321**
Balance at 1 June 2012	85,895	2,426	88,320
Decrease due to sales	-	(1,066)	(1,066)
Change in fair value less estimated point-of-sale costs - Elite	3,784	-	3,784
Change in fair value less estimated point-of-sale costs - Other	-	1,122	1,122
Balance at 31 May 2013	**89,679**	**2,481**	**92,160**
Non-current	89,679	-	89,679
Current	-	2,481	2,481
Balance at 31 May 2013	**89,679**	**2,481**	**92,160**

15 Biological assets (continued)

Parent

In thousands of New Zealand dollars	**Elite breeding bulls**	**Other livestock**	**Total**
Balance at 1 June 2011	72,848	635	73,483
Decrease due to sales	-	(78)	(78)
Change in fair value less estimated point-of-sale costs - elite	13,047	-	13,047
Change in fair value less estimated point-of-sale costs - other	-	307	307
Balance at 31 May 2012	**85,895**	**864**	**86,759**
Non-current	85,895	-	85,895
Current	-	864	864
Balance at 31 May 2012	**85,895**	**864**	**86,759**
Balance at 1 June 2012	85,895	864	86,759
Decrease due to sales	-	(95)	(95)
Change in fair value less estimated point-of-sale costs - elite	3,784	-	3,784
Change in fair value less estimated point-of-sale costs - other	-	58	58
Balance at 31 May 2013	**89,679**	**828**	**90,507**
Non-current	89,679	-	89,679
Current	-	828	828
Balance at 31 May 2013	**89,679**	**828**	**90,507**

At 31 May 2013 Elite breeding bulls comprised 866 bulls (2012: 870 bulls)

Valuation detail

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

The valuation consisted of the following assumptions:

WACC	8.7 percent post tax (2012: 8.7 percent post tax)
Inflation rate net effect	3 percent 2013 year only
	2.5 percent 2014 year onwards (2012: 1.5 percent for 2013 year)
Tax rate	28 percent (2012: 28 percent)

A one percent shift in any of the above would cause no material impact on the fair value of the elite breeding bulls.

Key sensitivity areas are: sales product mix, pricing, bull team composition, and probalility of success factor.

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

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

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

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

15 Biological assets (continued)

Supply and demand risk

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

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

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

Climate and other risks

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

16 Investments & derivatives

		Consolidated		Parent	
In thousands of New Zealand dollars	Note	2013	2012	2013	2012
Current investments					
Term deposits		4,033	12,097	4,033	12,097
Loan		5,493	10,186	5,493	10,186
Derivatives		(13)	(8)	(13)	(8)
		9,513	**22,275**	**9,513**	**22,275**
Non-current investments					
Investment in associates & joint ventures	32	-	6	-	-
Available-for-sale financial assets		1,413	1,498	922	900
		1,413	**1,504**	**922**	**900**
Total Investments		**10,925**	**23,779**	**10,434**	**23,175**

The loan is to Agria NZ maturing 5th March 2014, and secured over the shares in PGW held by Agria Singapore (fair value of the security held is calculated as fair value of PGW shares less Agria NZ borrowings, and as at 31 May 2013 was $75 million, 2012: $100 million). The security is second ranking.

17 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
In thousands of New Zealand dollars	2013	2012	2013	2012	2013	2012
Fixed assets	-	-	(4,213)	(4,222)	(4,213)	(4,222)
Intangible assets	-	-	(2,940)	(2,940)	(2,940)	(2,940)
Biological assets	-	-	(25,083)	(23,970)	(25,083)	(23,970)
Inventories	-	-	(52)	(57)	(52)	(57)
Provisions	1,312	1,259	(49)	(42)	1,263	1,217
Other items	75	114	-	-	75	114
Net tax (assets)/liabilities	**1,387**	**1,373**	**(32,337)**	**(31,231)**	**(30,950)**	**(29,858)**

17 Deferred tax assets and liabilities (continued)

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

Parent	**Assets**		**Liabilities**		**Net**	
In thousands of New Zealand dollars	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Fixed assets	-	-	(4,011)	(4,041)	(4,011)	(4,041)
Intangible assets	-	-	(2,940)	(2,940)	(2,940)	(2,940)
Biological assets	-	-	(24,860)	(23,801)	(24,860)	(23,801)
Inventories	-	-	(36)	(43)	(36)	(43)
Provisions	1,301	1,247	(49)	(43)	1,252	1,204
Other items	75	114	-	-	75	114
Net tax (assets)/liabilities	**1,376**	**1,361**	**(31,896)**	**(30,868)**	**(30,520)**	**(29,507)**

Movement in temporary differences during the year

Consolidated

In thousands of New Zealand dollars	**Balance 31 May 2011**	Recognised in profit or loss	Recognised in equity	**Balance 31 May 2012**	Recognised in profit or loss	Recognised in equity	**Balance 31 May 2013**
Fixed assets	(3,073)	(150)	(999)	(4,222)	173	(164)	(4,213)
Intangible assets	(2,940)	-	-	(2,940)	-	-	(2,940)
Biological assets	(20,186)	(3,784)	-	(23,970)	(1,113)	-	(25,083)
Inventories	(54)	(3)	-	(57)	5	-	(52)
Provisions	1,099	118	-	1,217	46	-	1,263
Other items	(46)	160	-	114	(39)	-	75
	(25,200)	**(3,659)**	**(999)**	**(29,858)**	**(928)**	**(164)**	**(30,950)**

Parent

In thousands of New Zealand dollars	**Balance 31 May 2011**	Recognised in profit or loss	Recognised in equity	**Balance 31 May 2012**	Recognised in profit or loss	Recognised in equity	**Balance 31 May 2013**
Fixed assets	(2,927)	(185)	(929)	(4,041)	135	(105)	(4,011)
Intangible assets	(2,940)	-	-	(2,940)	-	-	(2,940)
Biological assets	(20,058)	(3,743)	-	(23,801)	(1,059)	-	(24,860)
Inventories	(40)	(3)	-	(43)	7	-	(36)
Provisions	1,088	116	-	1,204	48	-	1,252
Other items	31	83	-	114	(39)	-	75
	(24,846)	**(3,731)**	**(929)**	**(29,507)**	**(909)**	**(105)**	**(30,520)**

18 Inventories

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Semen	2,539	1,846	2,195	1,543
Equipment	6,166	5,313	6,166	5,313
Other	299	392	241	339
	9,005	**7,550**	**8,602**	**7,194**

In 2013, Inventories utilised and expensed during the period amounted to: $15.51 million (2012: $15.52 million).
Inventories written off in 2013 totalled $0.250 million (2012: $0.385 million).

19 Trade receivables

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Trade receivables due from related parties	-	-	9,364	9,150
Trade debtors	30,090	19,180	24,796	14,215
Other trade receivables	4,358	6,902	4,367	6,911
	34,448	**26,082**	**38,527**	**30,276**

See note 26 with respect to impairment of trade receivables.

20 Cash and cash equivalents

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Bank balances	10,675	7,684	9,319	6,233
Call deposits	9,051	8,558	9,051	8,558
Cash and cash equivalents in the statement of cash flows	**19,727**	**16,242**	**18,370**	**14,791**

The effective interest rate on call deposits in 2013 was 3.62 percent (2012: 3.86 percent).

21 Capital and reserves

Share capital - Investment shares

In thousands of shares	2013	2012
On issue at 1 June	29,528	29,528
On issue at 31 May	**29,528**	**29,528**

21 Capital and reserves (continued)

The Parent had 29,528,590 (2012: 29,528,590) fully paid Investment Shares on issue. These do not confer voting rights, but are tradable between Co-operative Control shareholders on the Alternative Board of the New Zealand Exchange Limited (NZAX). Investment Shares were created by a subdivision of existing Co-operative Shares into 1 Co-operative Control and 10 Investment Shares, in April 2004. The Constitution prescribes that it is not compulsory to hold Investment shares and specifies the maximum shareholding limits for Investment Shares. All Shareholders must sell their total holding of Investment Shares within two years of ceasing to be a Co-operative Control Shareholder. Employees of LIC are able to purchase Investment shares under the LIC Employee Share Scheme.

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

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

Available for Sale Asset reserve
The reserve relates to the fair value adjustment for available for sale shares.

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

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

In thousands of New Zealand dollars	**2013**	**2012**
39.16 cents Final Investment Share dividend – paid in 2013 (2012: 44.97 cents)	11,564	13,279

After 31 May 2013 the following dividends were proposed by the Directors for 2013. The dividends have not been provided for and there are no income tax consequences.

In thousands of New Zealand dollars	**2013**	**2012**
54.91 cents per Investment share (2012: 39.16 cents)	16,215	11,564

22 Co-operative Control Shares

	Consolidated		**Parent**	
In thousands of shares	**2013**	**2012**	**2013**	**2012**
On issue at 1 June	5,117	4,328	5,117	4,328
Own shares acquired	(581)	(378)	(581)	(378)
Issue of shares	905	1,167	905	1,167
On issue at 31 May	**5,441**	**5,117**	**5,441**	**5,117**

The Parent had 5,440,683 (2012: 5,117,347) Co-operative Control shares on issue at reporting date. The shares have a nominal value of $1 each. All shares confer identical rights, privileges, limitations and conditions on the holders of the shares. Co-operative Control Shares must be redeemed when a Shareholder has ceased to be, or no longer has the capacity to be, a user of the Parent's products and services. Redemptions can occur either on application for voluntary surrender by the Shareholder or by the Parent pursuant to the Constitution.

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

23 Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 May 2013 was based on the profit attributable to Investment shareholders of $23.658 million (2012: $24.387 million) and a weighted average number of shares outstanding of 29.528 million (2012: 29.528 million), calculated as follows:

Earnings per Investment Share, after allowing for payment for Co-operative Control Share dividends, equated to 80.1 cents per Investment Share (2012: 82.6 cents per Investment Share).

Earnings per share includes the increase in the fair value of the elite biological assets of $2.724 million after tax (2012: $9.393 million). The dividend is based on the underlying earnings of the Group, being the profit for the year excluding elite biological assets and tax thereon.

Profit after tax attributable to investment shareholders

In thousands of New Zealand dollars	**2013**	**2012**
Net profit for the period	**23,658**	**24,387**

Weighted average number of Investment shares

In thousands of shares	**2013**	**2012**
Issued Investment shares at 1 June	29,528	29,528
Weighted average number of Investment shares at 31 May	**29,528**	**29,528**

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

24 Provisions

Consolidated

In thousands of New Zealand dollars	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Other	Total
Balance at 1 June 2012	**4,304**	**1,584**	**251**	**4**	**6,143**
Additional provision made	3,606	980	35	-	4,622
Amount utilised	(3,449)	(806)	-	(2)	(4,256)
Balance at 31 May 2013	**4,462**	**1,759**	**286**	**2**	**6,508**
Non-current	3,207	1,227	71	-	4,505
Current	1,254	532	215	2	2,003
Balance at 31 May 2013	**4,462**	**1,759**	**286**	**2**	**6,508**

Parent

In thousands of New Zealand dollars	Employee entitlements	Sire Proving Rebate	ACC Partnership Programme	Other	Total
Balance at 1 June 2012	**4,204**	**1,584**	**251**	**4**	**6,043**
Additional provision made	3,606	979	34	-	4,620
Amount utilised	(3,449)	(806)	-	(2)	(4,256)
Balance at 31 May 2013	**4,362**	**1,758**	**285**	**2**	**6,406**
Non-current	3,135	1,227	71	-	4,433
Current	1,227	531	213	2	1,973
Balance at 31 May 2013	**4,362**	**1,758**	**285**	**2**	**6,406**

24 Provisions (continued)

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

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

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

The Group manages its exposure arising from the programme by promoting a safe and healthy working environment by:
- induction training on health and safety;
- actively managing work place injuries to ensure employees return to work as soon as practical;
- recording and monitoring work place injuries and near misses to identify risk areas and implementing mitigating actions; and
- identification of work place hazards and implementation of appropriate safety procedures.

The Group has chosen a stop loss limit of 165 percent of the industry premium.

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

An external independent actuarial valuer, Mark Weaver from Melville Jessup Weaver (Fellow of the NZ Society of Actuaries) has calculated the Group’s liability, and the valuation is effective 31 May 2013. The valuer has attested he is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuarial valuers report.

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

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

The assumed ’loss ratio’ of 0.40 percent of liable earnings was determined by considering the observed loss ratios for the earlier loss quarters and having regard to the general trend in claims costs since LIC entered the ACCPP.

An assumption of 10 percent of outstanding claims was used for claims handling expenses, which is consistent with the assumption used by ACC.

25 Trade and other payables

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Trade payables due to related parties	-	-	1,429	1,336
Other trade payables	18,713	18,329	18,560	18,105
Non-trade payables and accrued expenses	2,611	3,260	2,085	2,706
	21,324	**21,589**	**22,074**	**22,146**

26 Financial instruments

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

(a) Credit Risk

Credit risk is the risk that the counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. The Group is exposed to credit risk through the normal trade credit cycle, advances to third parties and through the use of derivative financial instruments. No collateral is required in respect of financial assets except for the loan receivable from Agria NZ, refer note 16. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. Reputable financial institutions are used for investing and cash handling purposes.

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

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

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
New Zealand	28,523	19,829	32,412	24,002
Australia	405	371	682	873
United Kingdom	2,041	2,101	1,889	1,754
Other European countries	2,334	2,128	1,866	1,631
North America	211	271	745	635
South Africa	269	208	269	208
South America	663	1,145	663	1,145
Other regions	2	30	2	30
Trade and other receivables	**34,448**	**26,082**	**38,527**	**30,276**

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

Consolidated

In thousands of New Zealand dollars	Gross receivable 2013	Impairment 2013	Gross receivable 2012	Impairment 2012
Trade receivables				
Not past due	33,329	-	25,067	-
Past due 0-30 days	716	-	701	-
Past due 31-120 days	358	29	235	22
Past due 121-360 days	120	46	145	44
Total	**34,523**	**75**	**26,148**	**66**

26 Financial instruments (continued)

Parent

In thousands of New Zealand dollars	Gross receivable 2013	Impairment 2013	Gross receivable 2012	Impairment 2012
Trade receivables				
Not past due	35,903	-	28,349	-
Past due 0-30 days	837	-	805	-
Past due 31-120 days	884	29	323	22
Past due 121-360 days	968	36	864	43
Total	**38,592**	**65**	**30,341**	**65**

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

	Consolidated		Parent	
In thousands of New Zealand dollars	**2013**	**2012**	**2013**	**2012**
Gross trade receivables	34,523	26,148	38,592	30,341
Collective impairment	(75)	(66)	(65)	(65)
Net trade receivables	**34,448**	**26,082**	**38,527**	**30,276**

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

(b) Liquidity Risk

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

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

Consolidated

In thousands of New Zealand dollars	2013		2012	
	Total	**Repayable on demand**	**Total**	**Repayable on demand**
Trade and other payables	21,324	21,324	21,589	21,589
Co-operative control shares	5,441	5,441	5,117	5,117
Total non derivative liabilities	**26,765**	**26,765**	**26,707**	**26,707**

Parent

In thousands of New Zealand dollars	2013		2012	
	Total	**Repayable on demand**	**Total**	**Repayable on demand**
Trade and other payables	22,074	22,074	22,146	22,146
Co-operative control shares	5,441	5,441	5,117	5,117
Total non derivative liabilities	**27,515**	**27,515**	**27,264**	**27,264**

26 Financial instruments (continued)

(c) Market Risk

(i) Foreign Currency Risk

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

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

In thousands of New Zealand dollars	USD	AUD	GBP	EUR
2012				
Foreign currency risk				
Trade and other receivables	1,416	371	2,101	2,128
Cash balances	58	257	850	246
Trade and other payables	(2,813)	(224)	(495)	(158)
Net balance sheet exposure before hedging activity	**(1,340)**	**404**	**2,456**	**2,216**
Forward exchange contracts				
Notional amounts	(49)	(601)	-	(410)
Net un-hedged exposure	**(1,389)**	**(197)**	**2,456**	**1,806**
2013				
Foreign currency risk				
Trade and other receivables	874	405	2,041	2,334
Cash balances	176	387	749	218
Trade and other payables	(1,545)	(735)	(404)	(250)
Net balance sheet exposure before hedging activity	**(494)**	**56**	**2,387**	**2,302**
Forward exchange contracts				
Notional amounts	(1,153)	(853)	-	(547)
Net un-hedged exposure	**(1,647)**	**(796)**	**2,387**	**1,755**

(ii) Interest Rate Risk

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

Consolidated

In thousands of New Zealand dollars	**2013**		**2012**	
	Total	**6 months or less**	**Total**	**6 months or less**
Interest bearing instruments				
Cash and cash equivalents	19,727	19,727	16,242	16,242
Short term deposits & loans	9,513	4,020	22,275	22,275
Total interest bearing instruments	**29,239**	**23,746**	**38,517**	**38,517**

26 Financial instruments (continued)

Parent

In thousands of New Zealand dollars

	2013		2012	
	Total	**6 months or less**	**Total**	**6 months or less**
Interest bearing instruments				
Cash and cash equivalents	18,370	18,370	14,791	14,791
Short term deposits & loans	9,513	4,020	22,275	22,275
Total interest bearing instruments	**27,883**	**22,390**	**37,066**	**37,066**

Capital management

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

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

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

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

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

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

Sensitivity analysis

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

At 31 May 2013 it is estimated that a general increase of one percent in interest rates would increase the Group's profit before income tax by approximately $0.197 million (2012: $0.162 million).

It is estimated that a general increase of 100 basis points (1 percent) in the value of the New Zealand dollar against other foreign currencies would have decreased the Group's profit before income tax by approximately $0.021 million for the year ended 31 May 2013 (2012: $0.023 million). The forward exchange contracts have been included in this calculation.

(iii) Hedging

Forecast transactions

The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. As at 31 May 2013 the fair value of forward exchange contracts was adjusted against the hedging reserve at that date. The net fair value of forward exchange contracts used as hedges of forecast transactions at 31 May 2013 is a net asset of $0.013 million (2012: $0.008 million), comprising assets of $0.081 million (2012: $0.210 million) and liabilities of $0.068 million (2012: $0.202 million).

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

26 Financial instruments (continued)

Fair values

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

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

Fair value heirarchy

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

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

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

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

Consolidated

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives - designated at fair value through profit or loss	-	(13)	-	(13)
Available for sale financial assets	856	268	289	1,413

Reconciliation of investments defined as level 3:	
Opening balance	339
Movements in fair value through reserves	(50)
	289

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives - designated at fair value through profit or loss	-	(8)	-	(8)
Available for sale financial assets	891	268	339	1,498

Reconciliation of investments defined as level 3:	
Opening balance	360
Movements in fair value through reserves	(21)
	339

27 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Less than one year	666	658	630	622
Between one and five years	628	364	628	364
More than five years	-	-	-	-
	1,294	**1,022**	**1,259**	**986**

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

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

During the year ended 31 May 2013 $0.981 million was recognised as an expense in the income statement in respect of operating leases (2012: $0.8 million). $0.128 million was recognised as income in respect of subleases (2012: $0.123 million).

28 Capital commitments

As at 31 May 2013 the Group had entered into contracts to purchase property, vehicles, plant and equipment for $1.357 million (2012: $2.949 million). These commitments are expected to be settled in the following financial year.

29 Contingencies

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

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

In thousands of New Zealand dollars	Consolidated 2013	Consolidated 2012	Parent 2013	Parent 2012
Profit for the period	**23,658**	**24,387**	**23,553**	**23,935**
Adjustments for:				
Depreciation	7,301	6,515	6,902	6,156
Amortisation of intangible assets	6,403	4,436	6,403	4,436
Share of loss in associate	-	40	-	-
Change in deferred taxation	1,092	4,659	1,013	4,660
Change in fair value of elite biological assets	(3,784)	(13,047)	(3,784)	(13,047)
Impairment	325	357	320	357
Gain on sale of property, plant and equipment	(413)	(276)	(391)	(272)
	10,923	**2,683**	**10,463**	**2,290**
Change in inventories (increase)/decrease	(1,454)	(1,336)	(1,408)	(1,376)
Change in trade receivables (increase)/decrease	(8,366)	(4,280)	(8,251)	(5,703)
Change in biological assets (increase)/decrease	(56)	(239)	36	(230)
Change in other current assets (increase)/decrease	(23)	263	(21)	261
Change in trade and other payables increase/(decrease)	(265)	7,949	(73)	8,442
Change in provisions increase/(decrease)	739	(1,287)	725	(1,168)
Items reclassified to/from Investing/Financing activities	612	(425)	499	(266)
	(8,814)	**646**	**(8,493)**	**(39)**
Net cash from operating activities	**25,768**	**27,716**	**25,523**	**26,186**

31 Related parties

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

All the directors, executive management, subsidiary and associate companies are related parties of the Parent. The Group has no identified other related parties.

Transactions with key management personnel
Key management personnel compensation comprised:

In thousands of New Zealand dollars	2013	2012
Short term employee benefits	3,347	3,541
Defined Contribution Superannuation Plans	134	122
	3,481	**3,663**

In thousands of New Zealand dollars	2013	2012
Sale of goods and services		
Sale of goods and services to directors and key management personnel during period	592	672
Total Balance oustanding	106	(11)

31 Related parties (continued)

	Co-operative Shares		Investment Shares	
	2013	**2012**	**2013**	**2012**
Shareholding of Related Parties				
G Baldwin	832	112	-	-
M Dewdney	669	797	30,382	13,431
B Guy	2,026	2,126	12,816	12,436
M Jagger	1,234	1,369	21,546	21,315
D Jensen	1,109	1,137	2,710	2,710
M King	7,652	4,055	20,568	14,530
S Poole	2,496	1,368	21,219	21,219
A Reid	6,293	5,346	90,240	90,240

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

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

- Financing; and
- Sales and services.

In thousands of New Zealand dollars	**2013**	**2012**
Sale of goods and services to subsidiaries during period	2,763	3,529
Total Balance oustanding	9,364	9,150

Sales of goods to subsidiaries were made in the ordinary course of business on an arms length basis. Interest charged by the parent to subsidiaries for the year was $0.118 million (2012: $0.125 million).

Related party loans are repayable on demand and are charged interest at rates in line with the relevant markets base lending rate.

Employee Share Scheme
LIC acts as manager for the LIC Employee Share Scheme and has incurred $0.019 million of costs in running the scheme for the year (2012: $0.014 million).

32 Group Investments

The Group has the following significant subsidiaries:

Subsidiaries

Name	Country of Incorp	Class of Share	Voting Interest Held 2013 %	Voting Interest Held 2012 %	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

Associates

Name	Country of Incorp	Class of Share	Voting Interest Held 2013 %	Voting Interest Held 2012 %	Balance Date	Principal Activity
Technical Farm Solutions Ltd	NZ	Ordinary	25	25	31-Mar	Animal Management Systems

Total loss reported for Technical Farm Solutions Ltd was $0 (2012: $65). LIC's 25% has been reported on the income statement using the equity method.

33 Subsequent events

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

Independent auditor's report

To the shareholders of Livestock Improvement Corporation Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Livestock Improvement Corporation Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 1 to 41. The financial statements comprise the balance sheets as at 31 May 2013, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

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

Auditor's responsibility

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

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

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

Our firm has also provided other services to the company and group in relation to other assurance services. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

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

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 31 May 2013 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

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

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

KPMG.

24 July 2013
Hamilton

LIC Directors Report

Strong year with growth in demand for on-farm productivity services

LIC turned in another strong performance during the 2012/13 year with increased farmer uptake of a range of products and services driven by a growing farmer focus on cow health and herd reproductive performance.

The drought, which impacted New Zealand midway through the 2012/2013 season, presented farmers with unique challenges with many needing to shorten the dairy season and dry herds off early. This response resulted in a decrease in the number of herd tests carried out by LIC during autumn 2013.

Despite the backdrop of the drought LIC experienced strong farmer demand for its services, especially artificial breeding. The price freeze first applied to Premier Sires genetics in the 2009/2010 season was maintained for 2012/2013.

Farmer recognition of the potential to improve their farm's profitability was evident in uptake of LIC's GeneMark DNA parentage and animal health testing, participation in the '6 week challenge' to improve in-calf rates and increased use of MINDA Weights and Land & Feed.

The 2012/2013 year was not without its international challenges with some offshore genetics markets experiencing softer demand.

Revenue
Revenue and other income for 2012/2013 was $199 million, 12% ahead of the $177 million achieved during 2011/2012. All profit is reinvested in the business or paid out to shareholders as dividends.

NPAT
Net profit after tax was $23.7 million, down $0.7 million from the previous year. Net profit after tax includes the annual revaluation to fair value of the biological elite bull team which, this year, was an increase net of tax of $2.7 million compared to an increase of $9.4 million last year.

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

Underlying Net Earnings
Underlying Net Earnings (NPAT excluding the increase or decrease on fair value of elite biological assets and the related tax effect) increased from $14.99 million to $20.93 million this year, which flows through to a record dividend to farmer shareholders of $16.75 million compared to $11.99 million last year.

EBIT *excluding fair value adjustment to elite biological assets*
Improved sales volumes across most business areas resulted in earnings, before interest, taxation and fair value adjustments on elite biological assets, increasing by 42% to $27.29

million compared to $19.25 million in 2011/2012. Excluding the one-off goodwill payment in 2011/2012 of $4.7 million paid to early adopters of genomic technology, this EBIT (excluding change in fair value of elite biological asset) result was still an impressive increase of 14% over the prior year.

Strength of balance sheet

LIC continues to operate a strong balance sheet with total assets including cash, software, land and buildings and bull teams of $275.5 million, an increase of $15 million over the previous year with a stable equity ratio of 75%.

Cash flow

Cash flows from operations were strong for the 2012/2013 year generating $25.8 million, compared to $27.7 million in 2011/2012. Purchases of both tangible and intangible assets increased from $18.35 million to $23.97 million as the Cooperative ramped up its investment in innovative products for farmers and technology upgrades.

Dividend

LIC will pay a record dividend of $16.75 million, representing 80% of underlying earnings, to Cooperative and Investment Shareholders. This contrasts with the dividend paid in 2012 of $11.99 million and $13.6 million in 2011.

The 2012/2013 dividend translates to 8.4 cents per Cooperative Control Share and 54.91 cents per Investment Share and represents a gross yield of 13.2% on Investment Shares compared to 11.1% last year. The fully imputed dividend payments will be made to shareholders on 23 August 2013.

Leadership change

In June 2013 LIC farewelled Mark Dewdney following a very successful seven years as CEO. We wish him well in his future endeavours and are pleased he will remain an active New Zealand dairy farmer and LIC shareholder.

CEO designate, Wayne McNee, joins us at the end of July and the Board is confident his leadership will see the cooperative move to new levels of innovation and achievement.

Summary

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

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

Murray King
Chairman

GOVERNANCE REPORT

Role of Board of Directors

The Board is responsible for the direction and control of Livestock Improvement's activities. It is committed to the guiding values of the Company, integrity, respect, continuous improvement and service to its Shareholders. Legislation and the Constitution establish the Board's responsibility and include provisions for how the Co-operative will operate.

Responsibility

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

Co-operative Principles

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

1. The Company will remain a Co-operative Company;
2. The Company is controlled by Co-operative Control Shareholders who have voting rights in proportion to their use of the Company's qualifying products and services;
3. Core products and services are made available to all Shareholders at fair commercial prices;
4. Products and services which benefit Shareholders and which otherwise might not be made available, are developed and made available to Shareholders, provided that the company receives a commercial return, and
5. Shareholders co-operate with the Company and each other including the sharing of information to promote their common interests.

Pricing of Products and Services

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

Principal Activities

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

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

Board Composition

The Board is comprised of seven Elected Directors representing the regions and up to three Appointed Directors. Elected Directors hold office for a period of four years and Appointed Directors for up to three years. A retiring Director is eligible for re-election as a Director of the Company.

Election of Directors

The Directors representing the Southern region (Messrs M King and A Reid) retired by rotation in 2013 and both being eligible offered themselves for re-election. With no other nominations received, both Messrs M King and A Reid were declared re-elected.

Appointed Director Mr J Waldvogel retired by rotation and was re-elected for a further three year term at the 2012 Annual Meeting.

Committees

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

Audit Finance & Risk Committee

A Sub-Committee of the Board, the Audit Finance and Risk Committee ensures the Company complies with its audit, financial and risk management responsibilities. Six Directors are on the Committee, which is chaired by Appointed Director, Mr J Dale.

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

Remuneration and Appointment Committee

This Sub-Committee of the Board comprises five Directors and is chaired by Appointed Director, Mr P Lough. The Committee approves appointments and terms of remuneration for Senior Executives of the Company, principally the Chief Executive and those reporting to him. It also considers, and if appropriate approves, any wage and salary percentage adjustments for the Co-operative's employees.

Shareholder Committee

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

Meetings

The Board met nine times in 2012/13.

Insider Trading

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

SHAREHOLDING

Co-operative Control Shares

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

Investment Shares

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

Interests Register

A Directors' Interest Register is maintained and Directors interest in transactions during the financial year are outlined on page 49 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 solutions and herd testing services in the New Zealand dairy industry, the control and maintenance of the LIC Database, and the execution of research relating to dairy herd improvement.

ENTRIES IN THE INTERESTS REGISTER

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

Directorships and Memberships

G Baldwin:

Director of Ballance Agri-Nutrients Ltd (Ballance owns Farmworks Systems Ltd), Trinity Lands Ltd (registered Charity), Longview Trust Board (37% shareholder in Trinity Lands Ltd) and Regen Ltd (Chairman)

J Dale:

Director of Taranaki Investment Management Limited
Member of Ministry for Primary Industires Capital Structure Committee

D Jensen:

Director of Farmlands Co-operative Society Ltd and Satara Kiwifruit Supply Ltd

M King:

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

P Lough:

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

S Poole:

Trustee of Waimate West Demonstration Farm

A Reid:

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

J Waldvogel:

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

DIRECTORS AND REMUNERATION

Directors of the Parent received the following remuneration:

	Fees $000
M King	112
G Baldwin	45
J Dale	65
B Guy	45
M Jagger	45
D Jensen	45
P Lough	58
S Poole	45
A Reid	45
J Waldvogel	45
	550

ENTRIES IN THE INTEREST REGISTER

(a) Directors Interest

12 June 2012
M King declared an interest as a member of an AB Low Group.

26 July 2012
Financial Assistance to Voluntary Investment Share Scheme - B Guy, M Jagger and M King declared an interest as members of the Scheme.

26 July 2012
Purchase of LIC Investment Shares declared by M King.

21 August 2012
D Jensen declared a conflict of interest during the Agria discussion.

26 September 2012
A Reid declared an interest with regard to Co-operative Share Surrenders.

Participation in the company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2013/2014 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
B Guy	12	$132,000
M Jagger	2	$22,000
M King	3	$33,000
A Reid	1	$11,000

(b) Share Dealings by Directors

The Directors other than the Appointed Directors (either in their own names and/or in the name(s) of their dairy farming entities) as qualifying users of LIC's products and services are holders of the following shares:

	2013		2012	
Director	**Co-operative Control Shares**	**Investment Shares**	**Co-operative Control Shares**	**Investment Shares**
G Baldwin	832	0	112	
B Guy	2,026	12,816	2,126	12,436
M Jagger	1,234	21,546	1,369	21,315
D Jensen	1,109	2,710	1,137	2,710
M King	7,652	20,568	4,055	14,530
S Poole	2,496	21,219	1,368	21,219
A Reid	6,293	90,240	5,346	90,240

Director	Date	Investment Shares Purchased	Share Price
M King	July 2012	5,000	$4.95

Any other increase in holding results from participation in LIC's voluntary investment scheme.

(c) Loans to Directors of the Parent and Subsidiaries

There have been no loans during the year.

(d) Directors Indemnity and Insurance

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

(e) Use of Company information

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

Employees' Remuneration

During the year the following numbers of employees received total remuneration, including benefits, of at least $100,000:

Remuneration Range	Returning	Cessations	Total
100,000 – 109,999	26	1	27
110,000 – 119,999	20	1	21
120,000 – 129,999	10	1	11
130,000 – 139,999	14		14
140,000 – 149,999	11		11
150,000 – 159,999	7	1	8
160,000 – 169,999	4		4
170,000 – 179,999	4		4
180,000 – 189,999	2		2
200,000 – 209,999	1		1
210,000 – 219,999		1	1
220,000 – 229,999		1	1
240,000 – 249,999	2		2
250,000 – 259,999	2		2
260,000 – 269,999	2		2
280,000 – 289,999	2		2
380,000 – 389,999	1		1
760,000 – 769,999		1	1
Total	108	7	115

RESOLUTION OF DIRECTORS
DATED 24 JULY 2013 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 2013.

The grounds for this opinion are:

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

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

Shareholder Information as at 31 May 2013

Size of Shareholding Holdings	Shareholders	Investments Share Held	% of Total
1-999	1,722	782,439	2.65
1,000-1,999	1,540	2,320,661	7.86
2,000-2,999	1,436	3,545,399	12.01
3,000-3,999	940	3,258,496	11.04
4,000-4,999	633	2,829,806	9.58
5,000-9,999	1,185	8,076,024	27.35
Over 10,000	409	8,715,765	29.52
Total	**7,865**	**29,528,590**	**100%**

Twenty Largest Shareholdings of Quoted Securities

	Investment Shares Held	% of total
Anglesea Consulting Limited	626,463	2.12
Twin Terraces Limited	226,932	0.77
Custodial Services Limited - Employee Share Scheme	208,591	0.71
Christopher John Procter + Donna Leigh Procter + BSN Trustees Limited - Tara Trust	179,886	0.61
William Terence Leonard	153,559	0.52
Mark Francis Slee + Devon Mathieson Slee	95,298	0.32
Brian Douglas Dunlop + Gary Bruce Dunlop + Jennifer Anne Chapman - B & S Dunlop Trust	93,000	0.31
Farnley Tyas Farms Limited	86,000	0.29
Hammond Limited	76,913	0.26
Malrose Properties Limited	70,756	0.24
Peter John Lynskey + Carole Joyce Lynksey - Maolla Trust	64,996	0.22
Kaimanawa Farms Limited	62,787	0.21
WK & VG Bishop Limited	62,360	0.21
Christopher John Stark + Graham Carr - Deebury Pastoral Partnership - Ealing	59,418	0.20
K F Jones Limited	54,041	0.18
Stuart Bruce Bay + Doris Beth Bay - Bay Family Trust	50,740	0.17
Browns Farm Limited	50,360	0.17
James Austin Wilkins + Donna Maree Wilkins - Jad Wilkins Partnership	49,634	0.17
Gillian Patricia Alice Gow + James Platt Gow + Matthew Platt Gow - Gow Family Trust	49,248	0.17
Christopher John Stark + Graham Carr - Deebury Pastoral Partnership - Maronan	48,948	0.17
		8.03

Credit Rating Status

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

Substantial Security Holders

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

Donations

The Company made donations totalling $24,981 (primarily for National drought support paid to the Rural Support Trust) during the year ended 31 May 2013 (2012: $2,667).

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 LIVESTOCK IMPROVEMENT CORPORATION LIMITED

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

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

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

(a) Directors to be nominated by Co-operative Control Shareholders, by region, pursuant to clause 26.4(b) and Schedule 3 of the Constitution;

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

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

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

4 Rule 3.2.6 to allow for the rotation of Elected Directors as set out in clause 27 of the Constitution and clauses 1(c) and (d) of Schedule 3 whereby Elected Directors are due to retire on the 1st day of June in each year, on a regional basis, so that a rotation schedule of 4 years for Elected Directors is permitted.

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

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

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

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

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

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

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

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

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

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

(h) Clause 24 list Matters which require the consent of the Minister for Agriculture and Fisheries (or other relevant Minister). This provision is required by the Dairy Industry Restructuring Act 2001 and must therefore take precedence over all other provisions in the Constitution and the Listing Rules.

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

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

(b) Rules 4.3.2(b)(I), 7.3.3(b) and 7.6.3(a) which all relate to issues of securities before 1995, have not been included in the Constitution because, as a matter of fact, these provisions do not apply to the Company;

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

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

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

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

DISCLOSURE OF FINANCIAL ASSISTANCE AS REQUIRED UNDER THE COMPANIES ACT 1993

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

LIC is required to make disclosures to all Shareholders in respect of this financial assistance. The exact amount of the costs depends upon the extent to which Shareholders participate in the Dividend Plan. However the total amount of costs in the next twelve months is estimated to be in the region of $34,000.

In relation to the financial assistance provided for the Dividend Plan, the LIC Board resolved on 24 July 2013 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 Limied ("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 costs depends upon the extent to which Shareholders participate in the Investment Scheme. However the total amount of costs in the next 12 months is estimated to be in the region of $15,000.

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 24 July 2013 that LIC should provide the financial assistance referred to above (“VIS Assistance”) for the period of 12 months commencing 10 working days after the date of sending this disclosure to Shareholders, and that the giving of the VIS Assistance is in the best interests of LIC and is a benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the VIS Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board’s conclusions are:

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

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

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

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

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

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

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

C **LIC Employee Share Scheme:** LIC proposes to provide financial assistance to those employees who elect to participate in the LIC Employee Share Scheme ("Employee Scheme") which from the 1 April 2011 has been managed by Craig Investment Partners Limited (Craigs), with Custodial Services Limited acting as custodian. LIC proposes to pay the Manager's and Custodian's fees and expenses (including brokerage) estimated to be $13,000. The amount of the Manager's fee will depend on how many employees participate in the Employee Scheme and the level of their contribution. An estimate of the net amount of the financial assistance is $13,000.

The Board of LIC resolved on 24 July 2013 that LIC should provide the financial assistance referred to above ("Employee Scheme Assistance") for the period of 12 months commencing 10 workign 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.