Livestock Improvement Corporation Limited (LIC)

ANNUAL REPORT

Year Ended 31 May 2015

Income Statement
For the year ended 31 May 2015

In thousands of New Zealand dollars	Note	Consolidated 2015	2014
Revenue	6	228,385	207,423
Other income	7	4,111	4,119
Purchased materials		(39,843)	(30,946)
Staff expenses	10	(93,573)	(89,597)
Depreciation	13	(9,876)	(8,581)
Amortisation	14	(11,209)	(8,461)
Impairment	8	(825)	619
Other expenses	9	(59,056)	(49,258)
Earnings before finance activities, taxation and fair value adjustments - elite biological assets		**18,114**	**25,318**
Finance income	11	506	1,354
Finance expenses	11	(1,157)	(746)
Fair value adjustments - elite biological assets	15	3,763	(787)
Earnings before taxation		**21,226**	**25,139**
Tax expenses on fair value adjustments - elite biological assets		(1,054)	220
Tax expenses - other		(6,503)	(7,313)
Total tax expense	12	**(7,557)**	**(7,093)**
Profit for the year		**13,669**	**18,046**
Profit attributable to:			
Owners of the company		13,837	18,046
Non-controlling interests		(168)	-
		13,669	**18,046**
Earnings per share	23		
Basic and diluted earnings per investment share (NZD)		0.463	0.611

Supplementary note to the Income Statement		
Profit for the year	**13,669**	**18,046**
(Profit)/loss on fair value of elite biological assets	(3,763)	787
Tax effect on (profit)/loss on fair value of elite biological assets	1,054	(220)
Underlying net earnings excluding elite biological assets and tax thereon	**10,960**	**18,613**

Statement of Comprehensive Income
For the year ended 31 May 2015

In thousands of New Zealand dollars	Note	Consolidated 2015	2014
Profit for the year		**13,669**	**18,046**
Other comprehensive income (net of income tax)			
Effective portion of changes in fair value of cash flow hedges		162	(23)
Net change in fair value of available for sale financial assets		(132)	247
Revaluation of property plant and equipment		2,088	2,385
Other comprehensive income for the year, net of income tax		2,118	2,609
Total comprehensive income for the year		**15,788**	**20,655**
Attributable to:			
Owners of the company		15,956	20,655
Non-controlling interests		(168)	-
Total comprehensive income for the year		**15,788**	**20,655**

Balance Sheet
As at 31 May 2015

In thousands of New Zealand dollars	Note	Consolidated 2015	2014
Assets			
Fixed assets	13	88,212	77,030
Intangible assets	14	65,354	50,076
Biological assets	15	92,655	88,892
Investments & derivatives	16	2,618	1,665
Total non-current assets		**248,839**	**217,663**
Cash and cash equivalents	20	2,523	15,502
Inventories	18	13,162	10,759
Biological assets	15	2,414	2,549
Investments & derivatives	16	198	-
Trade Receivables	19	32,209	34,155
Prepayments		2,164	3,168
Total current assets		**52,670**	**66,133**
Total assets		**301,509**	**283,796**
Equity			
Share capital		58,464	58,464
Reserves		29,620	27,633
Retained earnings		130,640	127,272
Equity attributable to owners of the company		218,723	213,369
Non-controlling interests		69	-
Total equity		**218,792**	**213,369**
Liabilities			
Provisions	24	5,765	5,137
Deferred tax liability	17	32,170	30,808
Total non-current liabilities		**37,936**	**35,945**
Co-operative Control Shares	22	6,474	6,292
Derivatives		-	38
Trade & other payables	25	23,382	23,847
Bank Loans		10,354	-
Provision for tax		2,110	2,239
Provisions	24	2,462	2,066
Total current liabilities		**44,782**	**34,482**
Total liabilities		**82,717**	**70,427**
Total equity and liabilities		**301,509**	**283,796**

Director

Date: 22 July 2015

Director

Date: 22 July 2015

Statement of Cash Flows
For the year ended 31 May 2015

In thousands of New Zealand dollars	Note	Consolidated 2015	2014
Net cash from/(used in) operating activities			
Cash provided from:			
Receipts from customers		231,721	209,856
Sale of biological assets		1,012	1,153
Finance income received		731	1,866
		233,465	**212,875**
Cash applied to:			
Payments to suppliers and employees		(192,103)	(168,278)
Finance expense paid		(600)	(216)
Income tax paid		(5,996)	(7,342)
		(198,700)	**(175,836)**
	30	**34,765**	**37,040**
Net cash from/(used in) investing activities			
Cash provided from:			
Acquisition of subsidiary - net of cash acquired		14	-
Sale of term investments		-	4,000
Sale of shares		297	-
Repayment of term loan		-	5,000
Sale of Property, Plant and Equipment		471	219
		782	**9,219**
Cash applied to:			
Acquisition of shares		(2,052)	(6)
Acquisition of intangibles		(26,596)	(22,817)
Acquisition of Property, Plant and Equipment		(19,138)	(11,768)
		(47,787)	**(34,591)**
		(47,005)	**(25,372)**
Net cash from/(used in) financing activities			
Cash provided from:			
Co-operative Shares paid up		1,089	1,374
Short Term Borrowings		10,350	-
		11,439	**1,374**
Cash applied to:			
Repurchase of Co-operative Shares		(907)	(522)
Dividends paid to Shareholders of the Group		(10,601)	(16,215)
Interest paid on Co-operative Shares		(565)	(531)
		(12,074)	**(17,268)**
		(635)	**(15,895)**
Net increase/(decrease) in cash balances		**(12,874)**	**(4,227)**
Cash balances at beginning of year		15,502	19,727
Effect of exchange rate changes on cash held		(104)	2
Closing cash balances		**2,523**	**15,502**

Consolidated Statement of Changes in Equity
For the year ended 31 May 2015

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	Non Controlling interests	Total Equity
Balance at 1 June 2013	58,464	20	28	24,976	125,441	-	208,929
Total comprehensive income for the year							
Profit	-	-	-	-	18,046	-	18,046
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	(23)	-	-	-	-	(23)
Net change in fair value of available for sale financial assets	-	-	247	-	-	-	247
Revaluation of property plant and equipment	-	-	-	2,385	-	-	2,385
Total other comprehensive income	-	(23)	247	2,385	-	-	2,609
Total comprehensive income for the year	**-**	**(23)**	**247**	**2,385**	**18,046**	**-**	**20,655**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	(16,215)	-	(16,215)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(16,215)**	**-**	**(16,215)**
Balance at 31 May 2014	**58,464**	**(3)**	**275**	**27,361**	**127,272**	**-**	**213,369**
Balance at 1 June 2014	58,464	(3)	275	27,361	127,272	-	213,369
Total comprehensive income for the year							
Profit	-	-	-	-	13,837	(168)	13,669
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	162	-	-	-	-	162
Net change in fair value of available for sale financial assets	-	-	(132)	-	-	-	(132)
Transfer to retained earnings for land & buildings sold during year	-	-	-	(132)	132	-	-
Revaluation of property plant and equipment	-	-	-	2,088	-	-	2,088
Total other comprehensive income	**-**	162	(132)	1,956	-	**-**	2,118
Total comprehensive income for the year	**-**	**162**	**(132)**	**1,956**	**13,969**	**(168)**	**15,788**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	(10,601)	-	(10,601)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**(10,601)**	**-**	**(10,601)**
Changes in ownership interests							
Acquisition of subsidiary with NCI	**-**	**-**	**-**	**-**	**-**	237	237
Total changes in ownership interests	**-**	**-**	**-**	**-**	**-**	**237**	**237**
Balance at 31 May 2015	**58,464**	**160**	**143**	**29,316**	**130,640**	**69**	**218,792**

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 a FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013, its financial statements comply with these Acts.

These financial statements of LIC, as at and for the year ended 31 May 2015, comprise LIC and its subsidiaries (together referred to as the 'Group').

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

2 Basis of preparation

(a) *Statement of compliance*

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

The financial statements were approved by the Board of Directors on 22 July 2015.

(b) *Basis of measurement*

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

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

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

(c) *Functional and presentation currency*

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

(d) *Use of estimates and judgements*

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

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

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

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

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

3. Significant accounting policies

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

(a) *Basis of consolidation*

(i) Subsidiaries

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

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

(ii) Associates

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

(iii) Transactions eliminated on consolidation

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

(iv) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

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

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

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

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

(b) *Foreign currency*

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group, 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.

3. Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

Available-for-sale financial assets

The Group's investments in equity securities (excluding investments in subsidiaries and associates) are classified as available-for-sale financial assets. Subsequesnt 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.

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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

(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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

(ii) Research and development

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

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

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

(iii) Livestock Improvement Database

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

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

(iv) Computer software

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

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

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

(v) Intellectual Property

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

(vi) Subsequent expenditure

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

(f) Biological assets

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

- Elite breeding bulls; and
- Other livestock.

3. Significant accounting policies (continued)

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

(g) Leased assets

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

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

(h) Inventories

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

(i) Impairment

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

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

(i) Impairment of loans and receivables, equity instruments, and other non-derivative instruments.

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

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

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

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

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

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

(ii) Impairment of fixed assets and intangibles

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

3. Significant accounting policies (continued)

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

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

(j) Employee benefits

(i) Long-term employee benefits

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

(ii) Short-term benefits

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

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

(iii) Defined contribution plans

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

(k) Provisions

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

(i) ACC Partnership Programme

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

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.

3. Significant accounting policies (continued)

(m) Government Grants

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

(n) Lease payments

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

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

(o) Finance income and expenses

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

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

(p) Income tax

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

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

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

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

(q) Share Capital

Investment Shares

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

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.

3. Significant accounting policies (continued)

(s) Earnings per share

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

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

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

- IFRS 9 Financial Instruments (effective January 2015)
- IFRS 15 Revenue (effective January 2017)

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, as determined by an independant Registered Valuer. Land and Buildings would fall under level 2 in the fair value hierarchy.

(b) Biological assets

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

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

(c) Investments in equity securities

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

(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). This would fall under Level 2 of the fair value hierarchy.

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

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

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

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

- Farm Automation. Includes the provision of dairy automated technologies from Protrack division and Dairy Automation Ltd. (now LIC Automation Ltd)

Other operating segments includes international operations, support services, research & development, diagnostics, animal health & treatment services, Deer Improvement Ltd., animal evaluation and leadership and governance support services for the Group. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2015 or 2014.

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

Notes to the financial statements

5. Operating Segments (continued)

	NZ Market Genetics		Herd Testing		Farm Software		Farm Automation		Total Reportable Segments		Other		Eliminations		Total	
In thousands of New Zealand dollars	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
External revenues	90,815	86,285	28,384	29,195	39,185	36,243	20,232	16,452	178,617	168,174	53,878	43,368	-	-	232,495	211,542
Inter-segment revenue	-	-	-	-	-	-	364	-	364	-	3,332	5,395	(3,697)	(5,395)	-	-
Total revenue	90,815	86,285	28,384	29,195	39,185	36,243	20,596	16,452	178,981	168,174	57,211	48,763	(3,697)	(5,395)	232,495	211,542
Depreciation & amortisation	(1,308)	(983)	(3,035)	(2,574)	(2,530)	(2,487)	(909)	(1,041)	(7,781)	(7,085)	(13,304)	(9,956)	-	-	(21,085)	(17,043)
Reportable segment profit before income tax	57,980	51,099	7,424	10,094	25,062	22,539	10,160	7,138	100,626	90,870	34,539	38,931	-	-	135,164	129,801

	2015	2014
Unallocated Amounts		
Permanent and non seasonal Personnel, Operating and Overheads	(116,226)	(105,102)
Other finance income/ expenses	(651)	609
Impairment	(825)	619
Fair value adjustments-biological assets	3,763	(787)
Consolidated profit before income tax	21,226	25,139

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**	**Revenues**	**Non current assets**	**Non current assets**
	2015	**2014**	**2015**	**2014**
New Zealand	219,571	199,523	247,420	216,323
Australia	3,108	2,013	394	467
Ireland	2,214	2,520	280	362
United Kingdom	3,840	3,893	581	488
Other Countries	3,763	3,594	164	24
Total	232,495	211,542	248,839	217,663

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 2015	2014
Sales of goods	154,054	133,268
Services	74,331	74,155
Total revenues	**228,385**	**207,423**

7 Other income

In thousands of New Zealand dollars	Consolidated 2015	2014
Government Grants	4,111	4,111
Other Income	-	8
	4,111	**4,119**

8 Impairment

In thousands of New Zealand dollars	Note	Consolidated 2015	2014
Impairment of goodwill	14	109	109
Decrease in valuation of land & buildings		-	67
Reversal of previously recognised decrease in valuation of land & buildings		(26)	(795)
Impairment of available for sale investments		741	-
		825	**(619)**

During 2015 the goodwill held by the Group (investment in Parent), in relation to FarmKeeper, was impaired by $0.109 million (2014: $0.109 million).

Revaluation of land & buildings saw an increase in the value of $0.026 million (2014: a decrease $0.067 million). The revaluation increase has been recognised in the Income Statement to reverse previously recorded downward revaluations.

Notes to the Financial Statements

9 Other Expenses

The following items of expenditure are included in other expenses:

In thousands of New Zealand dollars	Consolidated 2015	2014
Donations	4	18
Research and Development	16,874	14,963
Net loss on sale of property, plant and equipment	1,393	128
Auditors' remuneration comprises:		
KPMG – audit services	148	138
KPMG – non audit-related services	54	46
Other Auditors	32	55

Non audit-related services was for taxation consultancy services ($54k).

Research and Development expenses above is the total expenditure incurred across all departments and represents 7.39% of Revenue (2014: 7.21%).

10 Staff expenses

In thousands of New Zealand dollars	Consolidated 2015	2014
Wages and salaries	81,844	76,938
Contributions to employee superannuation	4,028	3,675
Other employee expenses	7,701	8,985
	93,573	**89,597**

11 Finance income and expense

In thousands of New Zealand dollars	Consolidated 2015	2014
Interest income on loans and receivables	482	1,295
Net foreign exchange gain	-	31
Dividend income on available-for-sale financial assets	24	28
Finance income	**506**	**1,354**
Interest expense	(509)	(215)
Dividend paid on Co-operative Control Shares	(565)	(531)
Net foreign exchange loss	(83)	-
Finance expense	**(1,157)**	**(746)**
Net finance income	**(651)**	**609**

Notes to the Financial Statements

12 Income tax expense

In thousands of New Zealand dollars	Consolidated 2015	2014
Current tax expense		
Current period	5,978	7,240
Adjustments for prior periods	(111)	-
	5,867	7,240
Deferred tax expense		
Origination and reversal of temporary differences	1,348	(157)
Adjustments for prior periods	342	10
	1,690	(147)
Total income tax expense	**7,557**	**7,093**

Reconciliation of tax expense

In thousands of New Zealand dollars	Consolidated 2015	2014
Profit for the period	13,669	18,046
Total income tax expense	7,557	7,093
Profit excluding income tax	21,226	25,139
Income tax using the Company's domestic tax rate: 28% (2014: 28%)	5,943	7,039
Effect of tax rates in foreign jurisdictions	103	(47)
Non-deductible expenses	1,133	78
Under/(over) provided in prior periods	378	22
Total income tax expense	7,557	7,092

In thousands of New Zealand dollars	Consolidated 2015	2014
Revaluation of buildings	(328)	5
Total income tax recognised directly in equity	**(328)**	**5**

Imputation credits

In thousands of New Zealand dollars	Consolidated 2015	2014
The imputation credits are available to shareholders of the Company	**16,339**	**14,753**

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 2013	29,646	22,897	38,135	14,902	3,316	13,592	122,487
Additions	-	1,953	3,834	3,388	215	2,269	11,660
Additions through Business Combination	-	3	24	5	6	20	56
Increases/(decreases) resulting from revaluations	3,166	(349)	-	-	-	-	2,817
Disposals	-	(173)	(390)	(1,197)	(243)	(3,499)	(5,501)
Forex Impact	-	-	(1)	(3)	1	3	(1)
Balance at 31 May 2014	**32,812**	**24,332**	**41,602**	**17,095**	**3,294**	**12,384**	**131,518**
Balance at 1 June 2014	32,812	24,332	41,602	17,095	3,294	12,384	131,518
Additions	30	11,024	5,641	2,688	529	1,036	20,948
Additions through Business Combination	-	79	17	43	5	12	156
Increases/(decreases) resulting from revaluations	3,032	(3,985)	-	-	-	-	(953)
Disposals	-	(1,494)	(585)	(1,770)	(252)	(2,056)	(6,159)
Forex impact	-	-	6	39	5	7	57
Balance at 31 May 2015	**35,873**	**29,955**	**46,681**	**18,093**	**3,581**	**11,383**	**145,566**
Depreciation and impairment losses							
Balance at 1 June 2013	-	(623)	(29,046)	(8,935)	(2,175)	(10,636)	(51,414)
Depreciation for the year	-	(1,252)	(3,415)	(2,270)	(318)	(1,326)	(8,581)
Adjustment due to revaluations	-	301	-	-	-	-	301
Disposals	-	22	387	1,111	241	3,456	5,217
Forex impact	-	-	(1)	(6)	(1)	(2)	(9)
Balance at 31 May 2014	**-**	**(1,553)**	**(32,075)**	**(10,100)**	**(2,252)**	**(8,507)**	**(54,488)**
Balance at 1 June 2014	-	(1,553)	(32,075)	(10,100)	(2,252)	(8,507)	(54,488)
Depreciation for the year	-	(1,403)	(3,894)	(2,630)	(373)	(1,576)	(9,876)
Adjustment due to revaluations	-	2,510	-	-	-	-	2,510
Disposals	-	149	552	1,577	231	2,044	4,553
Forex Impact	-	(1)	(5)	(35)	(4)	(8)	(53)
Balance at 31 May 2015	**-**	**(299)**	**(35,422)**	**(11,188)**	**(2,397)**	**(8,047)**	**(57,353)**
Carrying amounts							
At 1 June 2013	29,646	22,274	9,089	5,967	1,141	2,956	71,073
At 31 May 2014	**32,812**	**22,779**	**9,526**	**6,994**	**1,043**	**3,877**	**77,030**
At 1 June 2014	32,812	22,779	9,526	6,994	1,043	3,877	77,030
At 31 May 2015	**35,873**	**29,656**	**11,259**	**6,905**	**1,184**	**3,336**	**88,212**

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

Consolidated

In thousands of New Zealand dollars	
Land	10,697
Buildings	26,424

At the reporting date there was $2.964 million of WIP which is currently not being depreciated (2014: $1.760 million). This is included in the above carrying values.

Valuations of land and buildings were performed to determine the carrying value of these assets at 30 April 2015. These were performed by independent registered valuers, John Dunckley from Colliers International New Zealand (formerly Crighton Anderson Property & Infrastructure Limited), Ron Lockwood of Fergusson Lockwood & Associates and Jon G. Newson, and are based on methods/assumptions referred to in Note 4.

14 Intangible assets

Consolidated *In thousands of New Zealand dollars*	**Intellectual Property**	**Goodwill**	**Database**	**Software**	**Total**
Cost					
Balance at 1 June 2013	-	4,052	10,500	59,947	74,499
Acquisitions – internally developed	-	-	-	15,729	15,729
Acquisitions – separately acquired	-	-	-	2,075	2,075
Acquisitions - Business Combinations	900	4,144	-	12	5,055
Disposals	-	-	-	(1,540)	(1,540)
Balance at 31 May 2014	900	**8,196**	**10,500**	**76,223**	**95,819**
Balance at 1 June 2014	900	8,196	10,500	76,223	95,819
Acquisitions – internally developed	415	-	-	22,819	23,234
Acquisitions – separately acquired	1,180	-	-	2,365	3,545
Acquisitions – business combinations	-	-	-	3	3
Disposals	-	-	-	(1,295)	(1,295)
Balance at 31 May 2015	**2,495**	**8,196**	**10,500**	**100,116**	**121,307**
Amortisation and impairment losses					
Balance at 1 June 2013	-	(3,480)	-	(35,190)	(38,671)
Amortisation for the year	(38)	-	-	(8,423)	(8,461)
Impairment	-	(109)	-	-	(109)
Disposals	-	-	-	1,498	1,498
Balance at 31 May 2014	(38)	**(3,590)**	-	**(42,115)**	**(45,743)**
Balance at 1 June 2014	(38)	(3,590)	-	(42,115)	(45,743)
Amortisation for the year	(180)	-	-	(11,029)	(11,209)
Impairment	-	(109)	-	-	(109)
Disposals	-	-	-	1,109	1,109
Balance at 31 May 2015	**(217)**	**(3,699)**	**-**	**(52,035)**	**(55,952)**
Carrying amounts					
At 1 June 2013	-	572	10,500	24,758	35,829
At 31 May 2014	**863**	**4,606**	**10,500**	**34,108**	**50,076**
At 1 June 2014	863	4,606	10,500	34,108	50,076
At 31 May 2015	**2,278**	**4,496**	**10,500**	**48,081**	**65,354**

At the reporting date there was $18.954 million of capital work in progress for Parent and Group which is currently not being amortised (2014: $7.013 million).

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

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

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

	Consolidated	
In thousands of New Zealand dollars	**2015**	**2014**
New Zealand Genetics (Ireland Goodwill)	353	353
New Zealand Farm Software (Farmkeeper Goodwill)	-	109
LIC Automation Limited (Formerly Dairy Automation Limited)	4,144	4,144
	4,497	**4,606**

14 Intangible assets (continued)

In thousands of New Zealand dollars	Consolidated 2015	2014
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.

LIC Automation Limited's unit 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 (7.7 percent post tax; 2014: 8.5 percent post tax); and
Future projected cashflows (incorporates inflation of 2.65 percent: 2014: 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 2013	89,679	2,481	92,160
Decrease due to sales	-	(1,153)	(1,153)
Change in fair value less estimated point-of-sale costs - Elite	(787)	-	(787)
Change in fair value less estimated point-of-sale costs - Other	-	1,221	1,221
Balance at 31 May 2014	**88,892**	**2,549**	**91,441**
Non-current	88,892	-	88,892
Current	-	2,549	2,549
Balance at 31 May 2014	**88,892**	**2,549**	**91,441**
Balance at 1 June 2014	88,892	2,549	91,441
Decrease due to sales	-	(1,020)	(1,020)
Change in fair value less estimated point-of-sale costs - Elite	3,763	-	3,763
Change in fair value less estimated point-of-sale costs - Other	-	885	885
Balance at 31 May 2015	**92,655**	**2,414**	**95,069**
Non-current	92,655	-	92,655
Current	-	2,414	2,414
Balance at 31 May 2015	**92,655**	**2,414**	**95,069**

15 Biological assets (continued)

At 31 May 2015 Elite breeding bulls comprised 1029 bulls (2014: 860 bulls)

Valuation detail

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

The valuation consisted of the following assumptions:

WACC	annualised post tax rate 7.44 to 7.74 percent (2014: annualised post tax 7.65 to 8.46 percent)
Inflation rate net effect	2.65 percent (2014: 3 percent)
Tax rate	28 percent (2014: 28 percent)

The impact of a one percent shift in tax would not have a material impact on the fair value of the elite breeding bulls. A 1% increase in the WACC rates would effect a change of -$2.7m and a 1% decrease would increase the value by $2.8m. A 1% inflation adjustment would cause a shift of +/- $1.4m.

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

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

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

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

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

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.

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

16 Investments & derivatives

In thousands of New Zealand dollars	Consolidated 2015	2014
Current investments		
Derivatives	198	-
	198	**-**
Non-current investments		
Investment	18	-
Available-for-sale financial assets	2,600	1,665
	2,618	**1,665**
Total Investments	**2,816**	**1,665**

An impairment expense of $0.741 million has been recognised in respect of an available for sale financial asset. Refer Note 8.

17 Deferred tax assets and liabilities

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

Consolidated *In thousands of New Zealand dollars*	Assets 2015	Assets 2014	Liabilities 2015	Liabilities 2014	Net 2015	Net 2014
Fixed assets	-	-	(4,922)	(4,457)	(4,922)	(4,457)
Intangible assets	-	-	(2,940)	(2,940)	(2,940)	(2,940)
Biological assets	-	-	(25,742)	(24,869)	(25,742)	(24,869)
Inventories	-	-	(59)	(50)	(59)	(50)
Provisions	1,467	1,382	(60)	(52)	1,407	1,330
Other items	86	178	-	-	86	178
Net tax (assets)/liabilities	**1,553**	**1,560**	**(33,723)**	**(32,368)**	**(32,170)**	**(30,808)**

Movement in temporary differences during the year

Consolidated *In thousands of New Zealand dollars*	Balance 31 May 2013	Recognised in profit or loss	Recognised in equity	Balance 31 May 2014	Recognised in profit or loss	Recognised in equity	Balance 31 May 2015
Fixed assets	(4,213)	(239)	(5)	(4,457)	(793)	328	(4,922)
Intangible assets	(2,940)	-	-	(2,940)	-	-	(2,940)
Biological assets	(25,083)	214	-	(24,869)	(873)	-	(25,742)
Inventories	(52)	2	-	(50)	(9)	-	(59)
Provisions	1,263	67	-	1,330	77	-	1,407
Other items	75	103	-	178	(92)	-	86
	(30,950)	**147**	**(5)**	**(30,808)**	**(1,690)**	**328**	**(32,170)**

18 Inventories

In thousands of New Zealand dollars	Consolidated 2015	2014
Semen	3,059	2,813
Equipment	9,682	7,610
Other	421	337
	13,162	**10,759**

In 2015, Inventories utilised and expensed during the period amounted to: $20.63 million (2014: $17.60 million). Inventories written off in 2015 totalled $0.08 million (2014: $0.12 million).

19 Trade receivables

In thousands of New Zealand dollars	Consolidated 2015	2014
Trade debtors	30,679	32,837
Other trade receivables	1,530	1,317
	32,209	**34,155**

See note 26 with respect to impairment of trade receivables.

20 Cash and cash equivalents

In thousands of New Zealand dollars	Consolidated 2015	2014
Bank balances	2,523	5,379
Call deposits	-	10,122
Cash and cash equivalents in the statement of cash flows	**2,523**	**15,502**

21 Capital and reserves

Share capital - Investment shares

In thousands of shares	2015	2014
On issue at 1 June	29,529	29,529
On issue at 31 May	**29,529**	**29,529**

The Parent had 29,528,590 (2014: 29,528,590) authorised and fully paid Investment Shares on issue. These do not confer voting rights, but are tradable between Co-operative Control shareholders on the Alternative Board of the New Zealand Exchange Limited (NZAX). 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	2015	2014
35.90 cents Final Investment Share dividend – paid in 2015 (2014: 54.91 cents)	10,601	16,215

After 31 May 2015 the following dividends were proposed by the Directors for 2015. The dividends have not been provided for and there are no income tax consequences.

In thousands of New Zealand dollars	2015	2014
20.26 cents per Investment share (2014: 35.9 cents)	5,983	10,601

Notes to the Financial Statements

22 Co-operative Control Shares

In thousands of shares	Consolidated 2015	2014
On issue at 1 June	6,292	5,441
Own shares acquired	(907)	(522)
Issue of shares	1,089	1,374
On issue at 31 May	**6,474**	**6,292**

The Parent had 6,473,971 (2014: 6,292,192) 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 2015 was based on the profit attributable to Investment shareholders of $13.669 million (2014: $18.046 million) and a weighted average number of shares outstanding of 29.529 million (2014: 29.529 million), calculated as follows:

Earnings per Investment Share, after allowing for payment for Co-operative Control Share dividends, equated to 46.3 cents per Investment Share (2014: 61.1 cents per Investment Share).

Earnings per share includes the increase in the fair value of the elite biological assets of $2.709 million after tax (2014: decrease of $0.567 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	2015	2015
Net profit for the period	**13,669**	**18,046**

Weighted average number of Investment shares

In thousands of shares	2015	2014
Issued Investment shares at 1 June	29,529	29,529
Weighted average number of Investment shares at 31 May	**29,529**	**29,529**

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	Total
Balance at 1 June 2014	**4,731**	**2,223**	**249**	**7,203**
Additional provision made	266	2,100	18	2,383
Amount utilised	-	(1,359)	-	(1,359)
Balance at 31 May 2015	**4,997**	**2,964**	**267**	**8,228**
Non-current	3,709	1,990	66	5,765
Current	1,288	974	200	2,462
Balance at 31 May 2015	**4,997**	**2,964**	**267**	**8,228**

24 Provisions (continued)

Provision for employee entitlements

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

Provision for sire proving rebate

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

ACC Partnership Programme

The liability for the ACC Partnership Programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely 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 192 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 2015. The valuer has attested he is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuarial valuers report.

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

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

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

An assumption of 10.8 percent of outstanding claims was used for claims handling expenses, which is consistent with the assumption used by ACC.

25 Trade and other payables

	Consolidated	
In thousands of New Zealand dollars	**2015**	**2014**
Other trade payables	20,185	20,763
Non-trade payables and accrued expenses	3,197	3,084
	23,382	**23,847**

26 Financial instruments

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

(a) Credit Risk

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

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

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

	Consolidated	
In thousands of New Zealand dollars	**2015**	**2014**
New Zealand	24,714	28,293
Australia	487	363
United Kingdom	2,240	2,136
Ireland	1,553	1,850
North America	480	223
South Africa	629	306
South America	1,823	960
Other regions	285	23
Trade and other receivables	**32,209**	**34,155**

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

Consolidated

In thousands of New Zealand dollars	**Gross receivable 2015**	**Impairment 2015**	**Gross receivable 2014**	**Impairment 2014**
Trade receivables				
Not past due	31,075	-	33,179	-
Past due 0-30 days	687	-	681	-
Past due 31-120 days	361	(27)	269	(10)
Past due 121-360 days	170	(57)	74	(39)
Total	**32,293**	**(84)**	**34,204**	**(49)**

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

	Consolidated	
In thousands of New Zealand dollars	**2015**	**2014**
Gross trade receivables	32,293	34,204
Collective impairment	(84)	(49)
Net trade receivables	**32,209**	**34,155**

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.

Notes to the Financial Statements

26 Financial instruments (continued)

(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	**2015**		**2014**	
	Total	**Repayable on demand**	**Total**	**Repayable on demand**
Trade and other payables	23,382	23,382	23,847	23,847
Co-operative control shares	6,474	6,474	6,292	6,292
Short term deposits & loans	10,354	10,354	-	-
Total non derivative liabilities	**40,210**	**40,210**	**30,139**	**30,139**

(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**	**BRL**
2014					
Foreign currency risk					
Trade and other receivables	1,183	363	2,136	1,850	-
Cash balances	164	422	740	170	-
Trade and other payables	(102)	(549)	(447)	(132)	-
Net balance sheet exposure before hedging activity	**1,245**	**236**	**2,429**	**1,888**	**-**
Forward exchange contracts					
Notional amounts	(2,605)	(2,032)	-	(277)	-
Net un-hedged exposure	**(1,360)**	**(1,796)**	**2,429**	**1,611**	**-**
2015					
Foreign currency risk					
Trade and other receivables	2,303	487	2,240	1,553	-
Cash balances	102	674	686	82	316
Trade and other payables	(105)	(385)	(470)	(118)	(154)
Net balance sheet exposure before hedging activity	**2,300**	**776**	**2,457**	**1,517**	**162**
Forward exchange contracts					
Notional amounts	(1,380)	(3,056)	-	(544)	-
Net un-hedged exposure	**920**	**(2,280)**	**2,457**	**973**	**-**

26 Financial instruments (continued)

(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	2015		2014	
	Total	**6 months or less**	**Total**	**6 months or less**
Interest bearing instruments				
Cash and cash equivalents	2,523	2,523	15,502	15,502
Short term deposits & loans	10,354	10,354	-	-
Total interest bearing instruments	**12,877**	**12,877**	**15,502**	**15,502**

The effective interest rate on call deposits in 2015 was 3.71 percent (2014: 3.38 percent).
The weighted average interest rate on borrowings in 2015 was 4.70 percent.

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 complied with all 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, however the Group has utilised short term borrowings to meet working capital requirements, over year end.

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 2015 it is estimated that a general increase of one percent in interest rates would decrease the Group's profit before income tax by approximately $0.078 million (2014: $0.155 million increase).

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 $0.053 million for the year ended 31 May 2015 (2014: $0.043 million). The forward exchange contracts have been included in this calculation.

(iii) Hedging
The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. As at 31 May 2015 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 2015 is a net asset of $0.198 million (2014: $0.037 million liability), comprising assets of $0.235 million (2014: $0.024 million) and liabilities of $0.037 million (2014: $0.061 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

2015	Level 1	Level 2	Level 3	Total
Derivatives - designated at fair value through profit or loss	-	198	-	198
Available for sale financial assets	1,037	1,350	213	2,600

Reconciliation of investments defined as level 3:	
Opening balance	289
Movements in fair value through reserves	(76)
	213

2014	Level 1	Level 2	Level 3	Total
Derivatives - designated at fair value through profit or loss	-	(37)	-	(37)
Available for sale financial assets	1,109	268	289	1,665

Reconciliation of investments defined as level 3:	
Opening balance	289
Movements in fair value through reserves	-
	289

27 Operating leases

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

In thousands of New Zealand dollars	Consolidated 2015	2014
Less than one year	1,113	942
Between one and five years	2,413	1,982
More than five years	733	971
	4,260	**3,895**

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 2015 $1.205 million was recognised as an expense in the income statement in respect of operating leases (2014: $0.962 million). $0.127 million was recognised as income in respect of subleases (2014: $0.132 million).

28 Capital commitments

As at 31 May 2015 the Group had entered into contracts to purchase property, vehicles, plant and equipment, and intangible assets for $6.044 million (2014: $5.406 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 2015	2014
Profit for the period	**13,669**	**18,046**
Adjustments for:		
Depreciation	9,876	8,581
Amortisation of intangible assets	11,209	8,461
Change in deferred taxation	1,362	(142)
Change in fair value of elite biological assets	(3,763)	787
Impairment	825	(619)
Loss on sale of property, plant and equipment	1,393	128
	20,902	**17,197**
Change in inventories (increase)/decrease	(2,403)	(1,754)
Change in trade receivables (increase)/decrease	1,946	294
Change in biological assets (increase)/decrease	136	(68)
Change in other current assets (increase)/decrease	1,004	(842)
Change in trade and other payables increase/(decrease)	(465)	2,523
Change in provisions increase/(decrease)	266	(39)
Items reclassified to/from Investing/Financing activities	(290)	1,683
	194	**1,797**
Net cash from operating activities	**34,765**	**37,040**

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 and executive management are related parties of the Group. The Group has no identified other related parties.

Transactions with key management personnel
Key management personnel compensation comprised:

In thousands of New Zealand dollars	**2015**	**2014**
Short term employee benefits	2,716	3,999
Defined Contribution Superannuation Plans	115	138
	2,830	4,137

In thousands of New Zealand dollars	**2015**	**2014**
Sale of goods and services		
Sale of goods and services to directors and key management personnel during period	1,094	883
Total Balance outstanding	86	159

	Co-operative Shares		**Investment Shares**	
	2015	**2014**	**2015**	**2014**
Shareholding of Related Parties				
G Baldwin	10,141	8,649	62,797	62,797
M Jagger	1,433	1,364	21,967	21,731
D Jensen	1,395	1,446	2,710	2,710
M King	8,401	7,016	21,869	21,176
S Poole	1,745	1,851	21,219	21,219
A Reid	6,763	6,251	90,240	90,240
A Watters	10,218	-	7,444	-

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

Employee Share Scheme
Craigs Investment Partners Limited on behalf of the Company acts as manager for the LIC Employee Share Scheme and has incurred $0.012 million of costs in running the scheme for the year (2014: $0.024 million). Executive Management shareholdings fall under this scheme.

Notes to the Financial Statements

32 Group Investments

The Group has the following subsidiaries:

Subsidiaries

Name	Country of Incorp	Class of Share	Voting Interest Held		Balance Date	Principal Activity
			2015 %	**2014** %		
Livestock Improvement (New Zealand) Corporation Ltd	NZ	Ordinary	100	100	31-May	Holding Company
Livestock Improvement Corporation (UK) Ltd	UK	Ordinary	100	100	31-May	Semen Sales
Livestock Improvement Pty Ltd	Australia	Ordinary	100	100	31-May	Semen Sales
LIC Deer Ltd	NZ	Ordinary	100	100	31-May	Deer Artificial Breeding
LIC Ireland Ltd	Ireland	Ordinary	100	100	31-May	Semen Sales
Paul Shewan & Co Pty Ltd (Trading as Northern Feed Systems)	Australia	Ordinary	100	100	31-May	Farm Automation Systems – non-trading
FarmKeeper Pty Ltd	Australia	Ordinary	100	100	30-Jun	Farm Mapping Software
Overland Corner Holding Pty Ltd	Australia	Ordinary	100	100	30-Jun	Farm Mapping Software
LIC USA Ltd	USA	Ordinary	100	100	31-May	Marketing Support
Dairy Automation Limited	NZ	Ordinary	100	100	31-May	Farm Automation Systems
NZ Brasil Producao Animal Ltda	Brazil	Ordinary	70	0	31-Dec	Semen Sales

33 Business Combinations

In thousands of New Zealand dollars

Business combinations occuring during the reporting period

On 9th October 2014, the group purchased 70% of the Equity of NZ Brasil Producao Animal Ltda for $0.550m.

NZ Brasil Producao Animal Ltda specialises in the distribution of New Zealand genetics in Brazil.

No Goodwill was recognised at acquisition.

Acquisition-related costs of $0.119 million have been included in other expenses in the income statement for the year ended 31 May 2015.

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

34 Subsequent events

Dividend declared refer to Note 21. Subsequent to Balance Date the Group has entered into a new Syndicated Banking Facility, with $125m funding available.

Independent auditor's report

To the shareholders of Livestock Improvement Corporation Limited

We have audited the accompanying consolidated financial statements of Livestock Improvement Corporation Limited and its subsidiaries ("the group") on pages 1 to 35. The financial statements comprise the consolidated balance sheet as at 31 May 2015, the consolidated income statement and consolidated 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.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements on pages 1 to 35 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Livestock Improvement Corporation Limited as at 31 May 2015 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

22 July 2015
Hamilton

Directors' Report 2014-2015:
Year-end result reflects farmer commitment to herd improvement

The LIC Board views the 2014-2015 result as a positive reflection of the resilience of New Zealand's dairy farmers and their ongoing commitment to herd improvement. It's also testament to the value they place on services and solutions from their co-operative.

During the 2014-2015 year, LIC experienced high demand for its core artificial breeding and herd testing services, with a record number of semen straws (more than five million) processed during the spring mating period. Farmers also continued to invest in new technologies from LIC, to improve their prosperity and productivity. This was particularly evident with the large number utilising short gestation genetics to improve their herd's reproductive performance, reduce their reliance on inductions and get more days in milk. Orders for short gestation semen were double that of the previous season. A steady supply of farm automation and sensor technology systems also continued, and LIC's GeneMark™ DNA parentage testing service remains popular.

It was another strong year of innovation for LIC. In addition to the extended range of short gestation genetics, a new MINDA™ mating app was launched, plus new web-based management tools at MINDA.co.nz. A new automated heat detection system for herringbone sheds (Protrack EZ Heat™) was also installed on more farms as part of its limited release before full launch next season.

LIC's ongoing commitment to research and development (R&D) was also reflected in the year-end result, with expenditure totalling $16.9 million (7.4% of revenue). Capital expenditure on new product development was also high. Combined investment in R&D and new product development represented 11% of revenue. Work in 2014-2015 included research to improve the accuracy of genomic predictions, a new Johne's disease breeding value estimate, and investigations around new technology to measure pasture covers, a number of potential new animal health diagnostics tests, and automated body condition scoring.

LIC also continues to invest in its business for the long-term, to improve service delivery, support growth and enable more R&D and new product development. Capital investment in the 2014-2015 year totalled $48 million, with $28 million for technology upgrades and new product development. Highlights from this investment included a new herd testing centre in Hamilton worth $5 million, renovation and refurbishment of offices to meet growth demands, plus semen laboratory upgrades and a new semen collection barn.

Support for farmer shareholders
LIC understands what a challenging time this is for shareholders, and is committed to maintaining a vibrant and enduring New Zealand dairy sector. The board approved two initiatives to assist farmer shareholders, with provision for extended credit with interest free periods for AB products during the peak spring mating season, and interest free periods on automation and DNA parentage products. These initiatives are to help ensure investment in good genetics is not compromised, as a key driver for the future prosperity and productivity of a farming business. LIC also continues to review discretionary costs without impacting service to farmers.

Growth strategy
LIC's strategy, Toward 2025, includes a vision to improve the prosperity and productivity of our farmers, and a goal of delivering service and solutions for farmers which enable LIC to be a $1 billion revenue co-operative by 2025. Revenue is used as LIC's goal as it is considered a way of measuring value delivered by LIC on-farm. LIC will only achieve its goal if customers purchase its services and solutions.

During the 2014-2015 year, LIC purchased the majority interest of its Brazilian genetics distributor and invested into farm financial management software company Figured Ltd to secure an 18.8% equity stake. A partnership with Lely was also confirmed, which included the acquisition of Lely's Hamilton-based sensor R&D division (Sensortec), and an agreement to undertake further joint research into sensing technology. The agreement allows LIC to sell its milk meters (Cellsense™ and Yieldsense™) internationally, in addition to an agreement with Israel's SCR, to distribute the meters to four initial markets, and potential to add more in the future. A decision was also made to merge Protrack with the DAL business purchased in 2014, to form a new subsidiary business (also including the Sensortec team) called LIC Automation on 1 June 2015.

2014-2015 RESULT SUMMARY

Revenue: LIC revenue from ordinary activities was $228 million. Adding $4 million of other income from grants gives total revenue of $232 million. This is 10% ahead of the total revenue of $211 million achieved in 2013-2014. All profit is returned to LIC's 10,500 New Zealand dairy farmer shareholders as products, research and development or dividends.

NPAT: LIC net profit after tax was $13.7 million, down $4.4 million from the previous year. This decrease largely reflects the continued spend on core technology and infrastructure to ensure the co-op's technology is up-to-date, supported and able to provide a stable platform for delivering new products to farmers. Net profit after tax for LIC includes the annual revaluation to fair value of the biological elite bull team which, this year, was an increase net of tax of $2.7 million compared to a decrease of $0.57 million last year.

The fluctuations on fair value of the elite bull team are excluded for the purposes of dividend for LIC and are not considered as a key indicator of trading performance. For this reason, LIC also reports Underlying Net Earnings (NPAT excluding the increase or decrease on fair value of elite biological assets and the related tax effect) which decreased from $18.6 million to $11 million this year. This flows through to a dividend to farmer shareholders of $6.58 million compared to $11.168 million last 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 $302 million, an increase of $17.7 million over the previous year with a strong equity ratio of 73%. Bank loans were $10 million at year end.

Cash flow: Cash flows from operations were $34.8 million, compared to $37.0 million in 2013-2014, with higher sales and strong cashflows on-farm from the high milk payout. Purchases of both tangible and intangible assets increased from $34.6 million to $45.7 million as the co-operative increased its investment in development of innovative products for farmers and continued investment in technology and building upgrades.

Dividend: LIC will pay a dividend of $6.58 million, representing 60% of underlying earnings, to its Co-operative and Investment Shareholders. In 2014 the dividend paid was at 60% being $11.17 million. The 2014-2015 dividend translates to 9.15 cents per Co-operative Control Share and 20.26 cents per Investment Share and represents a gross yield of 6.25% on Investment Shares compared to 6.94% last year. The fully imputed dividend payments will be made to shareholders on 21 August 2015.

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 and innovation to improve products and service to its Shareholders. Legislation, the NZAX Listing Rules and the Constitution establish the Board's responsibility and include provisions for how the Co-operative will operate.

Responsibility

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

Co-operative Principles

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

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

Pricing of Products and Services

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

Principal Activities

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

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

Board Composition

The Board is comprised of seven Elected Directors elected by the Co-operative Control Shareholders within the four 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.

Current Board

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

Appointed Directors are Messers P Lough, J Waldvogel, J Dale (retired October 2014) and Mrs A Foote (appointed October 2014).

Election of Directors

The Director elected by the Northern region (Mr M Jagger) retired by rotation in 2015. Mr Jagger, being eligible, offered himself for re-election. Two nominations were received for the one position on the board, resulting in Mr M Jagger being re-elected for a further four year term effective 1 June 2015.

Appointed Director Mr J Dale retired by rotation in October 2014 and did not seek re-election. Mrs A Foote was appointed for a three year term at the 2014 Annual Meeting.

Committees

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

Audit Finance & Risk Committee
A Sub-Committee of the Board, the Audit Finance and Risk Committee ensures the Company complies with its audit, financial and risk management responsibilities. Up to six Directors are on the Committee, which was chaired by Appointed Director, Mr J Dale until his retirement in October 2014. Appointed Director Mrs A Foote was elected Chair as his replacement.

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

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

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 six times in 2014/15 with three additional strategy session days.

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

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

The Policy outlines:

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

(b) procedures to reduce the risk of insider trading; and

(c) disclosure requirements.

The Policy applies to all Directors, Councillors, Restricted Persons and other Employees.

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

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

SHAREHOLDING

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

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

Interests Register
A Directors' Interest Register is maintained and Directors' interest in transactions during the financial year are outlined on page 44 of the report.

STATUTORY REQUIREMENTS

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

ENTRIES IN THE INTERESTS REGISTER

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

Directorships and Memberships
G Baldwin:

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

J Dale:
Director of Taranaki Investment Management Limited, Ravensdown Limited and a Trustee of Rockliffe Family Trust

A Foote:

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

D Jensen:
Director of Farmland Co-operative Society and Figured Limited. Engaged by BNZ to act as a Consultant to ProHort Company Limited and a member of Eastpack Growers Forum

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 Ltd , Port of Nelson Ltd and Fisher & Paykel Appliances Holdings Ltd

S Poole:
Director and 50% owner of Poole Brothers Limited and a Trustee of Waimate West Demonstration Farm

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

J Waldvogel:

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

Vice President Dairy Farmers of America, Inc

A Watters:
AgInvest Holdings Limited (27.55% Shareholder)

DIRECTORS AND REMUNERATION

The reserve relates to non controlling interests for subsidiaries.

	Fees $000
M King	114
G Baldwin	47
J Dale	28
A Foote	39
M Jagger	47
D Jensen	47
P Lough	60
S Poole	47
A Reid	47
J Waldvogel	47
A Watters	47
	570

As the Company's representative on the Board of Directors of Figured Limited, David Jensen received $27,500 in remuneration from Figured Limited in the twelve months ending 31 May 2015.

Directors of subsidiaries of the Company received the following remuneration for the twelve months ending 31 May 2015:

	Fees $000
R Dungey	**8**
E Ruiz	**43**

All other directors of subsidiaries are employees of the Company. Except as set out above, no employee appointed as a director of a subsidiary receives any remuneration or other benefits in their role as a director of that subsidiary. The remuneration of such employees that receive more than $100,000 as a result of employee remuneration (and other benefits) is included in the Employees' Remuneration table on page 45. The directors of the Company's subsidiaries are set out below:

Livestock Improvement (NZ) Corporation Limited: Linda Cooper, Murray King and Wayne McNee
LIC Deer Limited: Linda Cooper, Geoff Corbett and Wayne McNee
Animal Breeding Services Limited: Linda Cooper and Wayne McNee
Dairy Automation Limited: Linda Cooper, Rob Ford, Wayne McNee and Richard Spelman
LIC Johnes Company Limited: Linda Cooper, Wayne McNee and Richard Spelman
Livestock Improvement Pty Limited: Peter Berney, Geoff Corbett, Robert Bruce Dungey, Andrew Fear and David Willis

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

Overland Corner Holdings Pty Limited: Peter Berney, Geoff Corbett, Robert Bruce Dungey, Andrew Fear and David Willis
Paul Shewen & Co Pty Limited: Peter Berney, Geoff Corbett, Robert Bruce Dungey, Andrew Fear and David Willis

Livestock Improvement Corporation (UK) Limited: Linda Cooper, Robert Hassall and Wayne McNee

LIC USA Limited: Linda Cooper, Wayne McNee and Jock Richardson

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

NZ Brasil Producao Animal Ltda: Barry Allison, Eduardo Marquez Palmerino and Edward Ruiz

ENTRIES IN THE INTEREST REGISTER

(a) Directors Interest

23 July 2014

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

24 September 2014

A Reid declared an interest in Farm Figured Limited as a trial participant.

A Watters declared an interest in Farm Figured Limited and left the meeting during discussions.

Elected Directors declared an interest in the pricing review discussion.

Participation in the company's Contract Mating Scheme could lead to the potential sale of bull calves in the 2015/2016 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
M King	5	$55,000
A Reid	1	$11,000
D Jensen	1	$11,000

(b) Share Dealings by Directors

As at 31 May 2015 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:

	2015		2014	
Director	**Co-operative**	**Investment**	**Co-operative**	**Investment**
G Baldwin	3,155	-	1,489	-
M Jagger	1,433	21,967	1,364	21,731
D Jensen	1,395	2,710	1,446	2,710
M King	8,401	21,869	7,016	21,176
S Poole	1,745	21,219	1,851	21,219
A Reid	5,160	90,240	6,251	90,240
A Watters	918	7,428	967	7,428

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

(c) Loans to Directors of the Parent and Subsidiaries

There have been no loans during the year.

(d) **Directors Indemnity and Insurance**

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

(e) Use of Company Information

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

Employees' Remuneration

During the period 1 June 2014 to 31 May 2015 the following numbers of employees (not being directors) received total remuneration, including benefits, of at least $100,000:

Remuneration Range (Gross)	Returning	Cessations	Total
100,000 – 109,999	49	3	52
110,000 – 119,999	25	1	26
120,000 – 129,999	25		25
130,000 – 139,999	9	4	13
140,000 – 149,999	11	2	13
150,000 – 159,999	10		10
160,000 – 169,999	9		9
170,000 – 179,999	4		4
180,000 – 189,999	4		4
190,000 – 199,999	2	1	3
200,000 – 209,999	2		2
220,000 – 229,999	1		1
230,000 – 239,999	1		1
240,000 – 249,999	2		2
270,000 – 279,999	3		3
280,000 – 289,999	1		1
290,000 – 299,999	2	1	3
340,000 – 349,999		1	1
900,000 – 909,999	1		1
Total	161	13	174

RESOLUTION OF DIRECTORS
DATED 22 JULY 2015 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 2015.

The grounds for this opinion are:

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

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

Spread of Shareholders as at 31 May 2015

Size of Shareholding	Number of Shareholders	Investment Shares Held	% of Total
1-999	1,661	688,189	2.33
1,000-1,999	1,385	2,087,280	7.07
2,000-2,999	1,275	3,147,556	10.66
3,000-3,999	846	2,949,137	9.99
4,000-4,999	555	2,476,050	8.39
5,000-9,999	1,190	8,163,587	27.65
Over 10,000	478	10,016,791	33.92
Total	**7,390**	**29,528,590**	**100%**

Twenty Largest Shareholdings of Quoted Securities

	Investment Shares Held	% of total Shares
Anglesea Consulting Limited	715,000	2.42
Twin Terraces Limited	335,099	1.13
Custodial Services Limited - Employee Share Scheme	226,855	0.77
Estate William Terence Leonard	153,559	0.52
Mark Francis Slee + Devon Mathieson Slee	122,625	0.42
Malrose Properties Limited	96,756	0.33
Farnley Tyas Farms Limited	93,188	0.32
Brian Douglas Dunlop + Gary Bruce Dunlop + Jennifer Anne Chapman - B & S Dunlop Trust	88,160	0.30
WK & VG Bishop Limited	87,427	0.30
The Grass Market Company Limited	69,143	0.23
Christopher John Stark + Graham Carr - Deebury Pastoral Partnership - Ealing	67,067	0.23
Hammond Limited	65,676	0.22
Broad Acres Farms Limited	63,494	0.22
Gillian Patricia Alice Gow + James Platt Gow + Matthew Platt Gow - Gow Family Trust	56,122	0.19
Christopher John Stark + Graham Carr - Deebury Pastoral Partnership - Maronan	55,251	0.19
Riverholme Pastures Limited	52,730	0.18
Stuart Bruce Bay + Doris Beth Bay - Bay Family Trust	51,493	0.17
James Austin Wilkins + Donna Maree Wilkins - Jad Wilkins Partnership	49,634	0.17
Rotokaia Farm Limited	48,930	0.17
Andrew Edward Peck + Fiona Louise Peck - Balrath Farm Partnership	47,882	0.16
		8.62

Credit Rating Status

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

Substantial Security Holders

As at 31 May 2015, no persons have notified the Company that they are substantial product holders of the Company as referred to in Section 274 of the Financial Markets Conduct Act 2013.

Donations

The Company made donations totalling $3,838 during the year ended 31 May 2015 (2014: $18,061).

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 LIVESTOCK IMPROVEMENT CORPORATION LIMITED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DISCLOSURE OF FINANCIAL ASSISTANCE AS REQUIRED UNDER THE COMPANIES ACT 1993

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

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

In relation to the financial assistance provided for the Dividend Plan, the LIC Board resolved on 22 July 2015 that LIC should provide the financial assistance referred to above (“Dividend Plan Financial Assistance”), for the period of 12 months commencing 10 working days after sending this disclosure to Shareholders, and that the giving of the Dividend Plan Financial Assistance is in the best interest of LIC and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Dividend Plan Financial Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board’s conclusions are:

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

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

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

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

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

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

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

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

LIC is required to make disclosure to all Shareholders in respect of this proposed financial assistance. The exact amount of the net costs depends upon the extent to which Shareholders participate in the Investment Scheme. However the total amount of net costs in the next 12 months is estimated to be in the region of $10,000.

In relation to the financial assistance to be provided for the Investment Scheme, the Board of LIC resolved on 22 July 2015 that LIC should provide the financial assistance referred to above ("VIS Assistance") for the period of 12 months commencing 10 working days after the date of sending this disclosure to Shareholders, and that the giving of the VIS Assistance is in the best interests of LIC and is a benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the VIS Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

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

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

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

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

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

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

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

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

The Board of LIC resolved on 22 July 2015 that LIC should provide the financial assistance referred to above ("Employee Scheme Assistance") for the period of 12 months commencing 10 working days after the date of sending this disclosure to Shareholders, and that the giving of the Employee Scheme Assistance is in the best interests of LIC, and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Employee Scheme Assistance is given are fair and reasonable, to LIC, and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

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

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

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

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

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

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