

Livestock Improvement Corporation Limited (LIC)

INTERIM FINANCIAL STATEMENTS
for the Six Months Ended 30 November 2017

Income Statement
for the six months ended 30 November 2017

<i>In thousands of New Zealand dollars</i>	Note	6 months to 30 Nov 2017 Unaudited	6 months to 30 Nov 2016 Unaudited	12 months to 31 May 2017 Audited
Revenue	4	151,479	130,326	199,129
Other income		1,336	758	4,400
Purchased materials		(16,064)	(14,786)	(28,406)
Staff expenses		(56,471)	(52,476)	(89,357)
Depreciation		(4,058)	(5,079)	(9,617)
Amortisation		(10,244)	(8,661)	(18,468)
One-off transformation costs		(20,665)	-	(1,735)
Other expenses		(22,827)	(21,750)	(47,872)
Earnings before finance activities, taxation and fair value adjustments - Bull Team		22,486	28,333	8,075
Finance income		696	63	149
Finance expenses		(1,580)	(1,455)	(2,390)
Fair value adjustments - Bull Team		-	-	24,663
Profit/(loss) before taxation		21,602	26,941	30,498
Tax on fair value adjustments - Bull Team		-	-	(6,906)
Tax - other		(6,535)	(7,647)	(2,792)
Total tax expense		(6,535)	(7,647)	(9,698)
Profit/(loss) for the period		15,067	19,295	20,800
Profit/(loss) attributable to:				
Owners of the Company		14,854	19,018	20,568
Non-controlling interests		213	277	232
		15,067	19,295	20,800
Earnings per share				
Basic and diluted earnings per investment share (NZ dollars)		0.510	0.653	0.704

Supplementary note to the Income Statement			
Profit/(loss) for the period	15,067	19,295	20,800
(Profit)/loss on fair value adjustments - Bull Team	-	-	(24,663)
Tax effect on (profit)/loss on fair value adjustments - Bull Team	-	-	6,906
Underlying net earnings/(loss) excluding fair value adjustments - Bull Team and tax thereon	15,067	19,295	3,042

**Statement of Comprehensive Income
for the six months ended 30 November 2017**

In thousands of New Zealand dollars

	6 months to 30 Nov 2017 <i>Unaudited</i>	6 months to 30 Nov 2016 <i>Unaudited</i>	12 months to 31 May 2017 <i>Audited</i>
Profit/(loss) for the period	15,067	19,295	20,800
Other comprehensive income (net of income tax)			
<i>Items that may be reclassified to the Income Statement in future periods:</i>			
Effective portion of changes in fair value of cash flow hedges	-	(49)	(224)
Net change in fair value of available for sale financial assets	2,362	820	830
<i>Items that will not be reclassified to the Income Statement in future periods:</i>			
Revaluation of fixed assets	-	-	1,049
Other comprehensive income/(loss) for the year, net of tax	2,362	771	1,654
Total comprehensive income/(loss) for the period	17,429	20,065	22,454
Total comprehensive income/(loss) attributable to:			
Owners of the Company	17,216	19,788	22,223
Non-controlling interests	213	277	232
Total comprehensive income/(loss) for the period	17,429	20,065	22,454

Balance Sheet
as at 30 November 2017

In thousands of New Zealand dollars

Assets

Fixed assets
Assets classified as held for sale
Intangible assets
Biological assets
Investments & derivatives

Total non-current assets

Cash & cash equivalents
Inventories
Biological assets
Trade & other receivables
Assets classified as held for sale

Total current assets

Total assets

Equity

Share capital
Reserves
Retained earnings
Equity attributable to owners of the company
Non-controlling interests

Total equity

Liabilities

Provisions
Term loans
Deferred tax liability

Total non-current liabilities

Co-operative Control Shares
Derivatives
Trade & other payables
Bank loans & borrowings
Provision for tax
Provisions

Total current liabilities

Total liabilities

Total equity and liabilities

	As at 30 Nov 2017 <i>Unaudited</i>	As at 30 Nov 2016 <i>Unaudited</i>	As at 31 May 2017 <i>Audited</i>
Fixed assets	69,342	80,148	78,390
Assets classified as held for sale	-	6,524	-
Intangible assets	74,750	76,826	73,106
Biological assets	112,174	87,511	112,174
Investments & derivatives	13,477	4,440	5,181
Total non-current assets	269,743	255,448	268,851
Cash & cash equivalents	7,561	4,736	3,458
Inventories	11,711	13,446	12,003
Biological assets	2,163	2,447	3,153
Trade & other receivables	79,490	79,392	47,495
Assets classified as held for sale	-	-	6,524
Total current assets	100,925	100,022	72,633
Total assets	370,668	355,470	341,484
Share capital	58,464	58,464	58,464
Reserves	34,154	32,553	33,437
Retained earnings	155,884	139,720	141,285
Equity attributable to owners of the company	248,502	230,737	233,186
Non-controlling interests	440	285	227
Total equity	248,942	231,022	233,413
Provisions	5,242	5,765	5,242
Term loans	-	15,000	15,000
Deferred tax liability	39,716	31,162	39,141
Total non-current liabilities	44,958	51,927	59,383
Co-operative Control Shares	6,309	6,263	6,238
Derivatives	160	98	206
Trade & other payables	21,806	18,972	22,081
Bank loans & borrowings	39,166	36,562	17,070
Provision for tax	5,667	7,258	320
Provisions	3,660	3,367	2,773
Total current liabilities	76,768	72,521	48,688
Total liabilities	121,726	124,448	108,071
Total equity and liabilities	370,668	355,470	341,484



Director

Date: 24 January 2018



Director

Date: 24 January 2018

Statement of Cash Flows
for the six months ended 30 November 2017

In thousands of New Zealand dollars

	Note	6 months to 30 Nov 2017 <i>Unaudited</i>	6 months to 30 Nov 2016 <i>Unaudited</i>	12 months to 31 May 2017 <i>Audited</i>
Net cash from/(used in) operating activities	6			
Cash provided from:				
Receipts from customers		108,530	92,572	205,195
Sale of biological assets		1,219	281	1,077
Finance income received		177	63	149
		109,926	92,916	206,421
Cash applied to:				
Payments to suppliers and employees		(102,891)	(91,601)	(177,108)
Finance expense paid		(1,013)	(856)	(1,647)
Income tax paid		(614)	(892)	(2,308)
		(104,518)	(93,349)	(181,063)
		5,408	(433)	25,359
Net cash from/(used in) investing activities				
Cash provided from:				
Sale of shares		87	-	-
Sale of fixed assets		16,265	438	4,242
		16,352	438	4,242
Cash applied to:				
Acquisition of subsidiary - net of cash acquired		-	-	(143)
Acquisition of shares		(6,266)	(273)	(1,273)
Acquisition of Investments & derivatives		(46)	-	-
Acquisition of intangibles		(11,888)	(5,831)	(11,919)
Acquisition of fixed assets		(4,240)	(212)	(4,197)
		(22,440)	(6,316)	(17,531)
		(6,088)	(5,878)	(13,289)
Net cash from/(used in) financing activities				
Cash provided from:				
Co-operative Control Shares paid up		914	821	821
Bank loans & borrowings		7,000	9,000	(10,500)
		7,914	9,821	(9,679)
Cash applied to:				
Repurchase of Co-operative Control Shares		(842)	(1,355)	(1,380)
Dividends paid to Shareholders of the Group		(1,900)	-	-
Interest paid on Co-operative Control Shares		(543)	-	-
		(3,285)	(1,355)	(1,380)
		4,629	8,467	(11,059)
Net increase/(decrease) in cash balances		3,949	2,156	1,012
Cash balances at beginning of period		3,458	2,667	2,667
Effect of exchange rate changes on cash held		154	(87)	(220)
Closing cash balances		7,561	4,736	3,458

**Statement of Changes in Equity
for the six months ended 30 November 2017**

In thousands of New Zealand dollars

	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Non Controlling interests	Total Equity
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Balance at 1 June 2016	58,464	(41)	798	31,025	120,704	8	210,957
Total comprehensive income for the period							
Profit/(loss) for the period	-	-	-	-	19,018	277	19,295
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	(49)	-	-	-	-	(49)
Net change in fair value of available for sale financial assets	-	-	820	-	-	-	820
Total other comprehensive income/(loss)	-	(49)	820	-	-	-	771
Total comprehensive income/(loss) for the period	-	(49)	820	-	19,018	277	20,066
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-	-
Balance at 30 November 2016	58,464	(90)	1,618	31,025	139,722	285	231,023
	<i>audited</i>	<i>audited</i>	<i>audited</i>	<i>audited</i>	<i>audited</i>	<i>audited</i>	<i>audited</i>
Balance at 1 June 2016	58,464	(41)	798	31,025	120,704	8	210,957
Total comprehensive income for the year							
Profit/(loss) for the year	-	-	-	-	20,568	232	20,800
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	-	(224)	-	-	-	-	(224)
Net change in fair value of available for sale financial assets	-	-	830	-	-	-	830
Revaluation of fixed assets	-	-	-	1,049	-	-	1,049
Total other comprehensive income/(loss)	-	(224)	830	1,049	-	-	1,655
Total comprehensive income/(loss) for the year	-	(224)	830	1,049	20,568	232	22,455
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-	-
Changes in ownership interests							
Acquisition of minority interest in subsidiary	-	-	-	-	13	(13)	-
Total Changes in ownership interests	-	-	-	-	13	(13)	-
Balance at 31 May 2017	58,464	(265)	1,628	32,074	141,285	227	233,413

Statement of Changes in Equity (continued)
for the six months ended 30 November 2017

In thousands of New Zealand dollars

	LIC Investment Shares	Foreign Currency Hedge Reserve	Available for Sale Asset Reserve	Revaluation Reserve	Retained Earnings	Non Controlling interests	Total Equity
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Balance at 1 June 2017	58,464	(265)	1,628	32,074	141,285	227	233,413
Total comprehensive income for the period							
Profit/(loss) for the period	-	-	-	-	14,854	213	15,067
Other comprehensive income							
Net change in fair value of available for sale financial assets	-	-	2,362	-	-		2,362
Total other comprehensive income/(loss)	-	-	2,362	-	-	-	2,362
Total comprehensive income/(loss) for the period	-	-	2,362	-	14,854	213	17,429
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	(1,900)	-	(1,900)
Total contributions by and distributions to owners	-	-	-	-	(1,900)	-	(1,900)
Adjustments relating to disposal of fixed assets				(1,645)	1,645		-
Balance at 30 November 2017	58,464	(265)	3,990	30,429	155,884	440	248,942

Notes to the Interim Financial Statements

1. Accounting entity

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

These financial statements of LIC, as at and for the six months ended 30 November 2017, comprise LIC and its subsidiaries (together referred to as the 'Group').

2. Accounting policies

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') as appropriate for profit oriented entities; which in the case of the Group is the New Zealand equivalent to International Accounting Standard 34. The Interim Financial Statements should be read in conjunction with the annual report for the year ended 31 May 2017. The accounting policies applied are consistent with those used in the comparative period (the six months to 30 November 2016) and in the audited annual report for the year ended 31 May 2017.

Notes to the Interim Financial Statements

3. Operating Segments

Information about reportable segments

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

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

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

- NZ Markets Genetics. Is the provision of bovine genetic breeding material and related services predominantly to dairy farmers.
- Herd Testing. The provision of herd testing and animal recording for pastoral farmers.
- Farm Software. Includes the provision of data recording and farm management information services.
- Farm Automation. Includes the provision of dairy automated technologies from LIC Automation Ltd, including Protrack.

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

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

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

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

Figures for comparative periods have been adjusted to reflect changes in the segment structure used for reporting to the CODM. These changes include the transfer of heat detection consumables from the Farm Automation segment to NZ Markets Genetics and the transfer of tag products to the Other segment from Farm Software.

Notes to the Interim Financial Statements

3. Operating Segments (continued)

	NZ Market Genetics			Herd Testing			Farm Software			Farm Automation			Total Reportable Segments			Other			Eliminations		
	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017
<i>In thousands of New Zealand dollars</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>
External revenues	85,457	73,840	80,938	12,629	9,735	24,631	14,445	13,456	27,148	12,869	7,473	12,933	125,400	104,504	145,650	27,415	26,580	57,879	-	-	-
Inter-segment revenue	-	-	-	-	-	-	-	-	-	1,368	1,006	1,340	1,368	1,006	1,340	-	348	138	(1,368)	(1,354)	(1,478)
Total Revenue	85,457	73,840	80,938	12,629	9,735	24,631	14,445	13,456	27,148	14,237	8,479	14,273	126,768	105,510	146,990	27,415	26,928	58,017	(1,368)	(1,354)	(1,478)
Reportable segment profit before income tax	60,065	48,874	52,978	6,208	4,146	11,991	10,984	10,420	20,768	5,998	3,417	5,492	83,255	66,856	91,229	13,955	11,219	22,503	-	-	-

	Total		
	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017
<i>In thousands of New Zealand dollars</i>	<i>Unaudited</i>		<i>Audited</i>
External revenues	152,815	131,084	203,529
Inter-segment revenue	-	-	-
Total Revenue	152,815	131,084	203,529
Reportable segment profit before income tax	97,210	78,075	113,732
Unallocated amounts:			
Permanent and non seasonal Personnel, Operating and Overheads	(74,724)	(49,742)	(105,657)
Other finance income/expenses	(884)	(1,392)	(2,241)
Fair value adjustments - Bull Team	-	-	24,663
Profit/(loss) before income tax	21,602	26,941	30,498

Notes to the Interim Financial Statements

4. Seasonal nature of business

LIC's business, particularly the Parent's artificial breeding business, is highly seasonal. November results, since they incorporate the majority of the artificial breeding revenues but not a similar proportion of total costs, are not indicative of the second half result nor, therefore, the full year result.

5. Fixed assets

<i>In thousands of New Zealand dollars</i>	6 months to 30 Nov 2017 <i>Unaudited</i>	6 months to 30 Nov 2016 <i>Unaudited</i>	12 months to 31 May 2017 <i>Audited</i>
Acquisitions	4,583	685	3,798
Disposals	22,229	1,822	19,755

Fixed asset disposals during the 6 months to 30 November 2017 include the sale of Riverlea Road herd testing and diagnostics depot, land and buildings associated with Deer Improvement and operational vehicles.

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

<i>In thousands of New Zealand dollars</i>	6 months to 30 Nov 2017 <i>Unaudited</i>	6 months to 30 Nov 2016 <i>Unaudited</i>	12 months to 31 May 2017 <i>Audited</i>
Profit/(loss) for the period	15,067	19,295	20,800
<i>Adjustments for:</i>			
Depreciation	4,058	5,079	9,617
Amortisation	10,244	8,661	18,468
Change in deferred taxation	575	(25)	7,954
Change in fair value of the Bull Team	-	-	(24,663)
Gain/(loss) on sale of fixed assets	(511)	(328)	(1,125)
Other adjustments	325	-	258
	14,691	13,386	10,508
Change in inventories (increase)/decrease	292	1,171	2,614
Change in trade & other receivables (increase)/decrease	(31,995)	(38,232)	(6,335)
Change in biological assets (increase)/decrease	990	(54)	(760)
Change in trade & other payables increase/(decrease)	(275)	(3,824)	(715)
Change in provisions increase/(decrease)	6,234	7,324	(210)
Items reclassified to/from Investing/Financing activities	404	502	(544)
	(24,350)	(33,113)	(5,949)
Net cash from operating activities	5,408	(433)	25,359

7. Capital commitments

As at 30 November 2017 the Group had entered into contracts to purchase fixed and intangible assets for \$1.660 million (30 November 2016: \$1.049 million; 31 May 2017: \$1.781 million).

8. Events subsequent to reporting date

There have been no significant events subsequent to the reporting date.

Notes to the Interim Financial Statements

9. Related parties

Transactions with key management personnel

Key management personnel compensation comprised:

In thousands of New Zealand dollars

Short term employee benefits

Defined contribution superannuation plans

6 months to 30 Nov 2017 <i>Unaudited</i>	6 months to 30 Nov 2016 <i>Unaudited</i>	12 months to 31 May 2017 <i>Audited</i>
2,056	1,610	3,273
-	25	-
2,056	1,635	3,273

<i>In thousands of New Zealand dollars</i>	Transaction value			Balance outstanding		
	6 months to 30 Nov 2017 <i>Unaudited</i>	6 months to 30 Nov 2016 <i>Unaudited</i>	12 months to 31 May 2017 <i>Audited</i>	6 months to 30 Nov 2017 <i>Unaudited</i>	6 months to 30 Nov 2016 <i>Unaudited</i>	12 months to 31 May 2017 <i>Audited</i>
Sale of goods and services						
Sale of goods and services on normal trade terms to Directors and key management personnel during period	1,177	814	2,390	316	332	297

10. Audit

In accordance with the Financial Reporting Act 2013 these interim financial statements are not required to be audited. In line with previous years these interim financial statements have not been audited.

11. 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.

12. Equity securities

842,416 Co-operative Control Shares have been repurchased during the period.

913,575 Co-operative Control Shares have been issued during the period.

13. Dividend

In relation to the 2017 financial year LIC declared a dividend of 8.55c per Co-operative Control Share and 6.44c per Investment Share, paid to shareholders on 18 August 2017. No other dividends have been declared in the period.

14. Net tangible assets per investment share

As at 30 November 2017 net tangible assets per investment Share were \$5.90 (as at 30 November 2016 they were \$5.22).

15. Fair Value

Determination of fair values

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

(a) *Land and buildings*

The fair value of land and buildings is based on market values. Fair values of land have been determined by using a direct comparison methodology and the fair value of buildings have been determined by using a capitalised rental methodology. Land and Buildings would fall under level 2 in the fair value hierarchy.

Notes to the Interim Financial Statements

15. Fair Value (continued)

(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) *Fair value hierarchy*

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

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

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

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

Notes to the Interim Financial Statements

15. Fair Value (continued)

	Level 1			Level 2			Level 3			Total		
	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017	6 months to 30 Nov 2017	6 months to 30 Nov 2016	12 months to 31 May 2017
<i>In thousands of New Zealand dollars</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>	<i>Unaudited</i>		<i>Audited</i>
Derivatives - designated at fair value through profit or loss	-	-	-	(160)	(98)	(206)	-	-	-	(160)	(98)	(206)
Available for sale investments & derivatives	8,112	1,307	1,256	5,212	2,971	3,780	153	162	146	13,477	4,440	5,181

There have been no transfers between levels in either direction during the period