



Livestock Improvement Corporation Limited (LIC) Annual Report

For the year ended
31 May 2021



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Key results and position

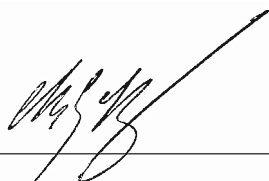
STATEMENT OF RESULTS FOR THE YEAR For the year ended 31 May 2021

	Note	2021	2020
<i>In thousands of New Zealand dollars</i>			
Continuing operations			
Revenue	1	249,013	240,932
Purchased materials		(40,795)	(35,493)
People costs		(103,576)	(98,443)
Depreciation and amortisation	3,4,5	(21,999)	(26,866)
Research and development		(17,124)	(14,844)
Other expenses	10	(33,615)	(33,062)
Net finance costs		(1,376)	(484)
Bull team revaluation	2	(718)	(7,220)
Fair value change in Nil Paid Share receivable	6	1,200	-
Profit/(loss) before tax expense from continuing operations		31,010	24,520
Tax expense	9	(7,397)	(3,465)
Profit/(loss) for the year from continuing operations		23,613	21,055
Discontinued operations			
Profit/(loss) after tax expense from discontinued operations	14	(669)	(3,568)
Profit/(loss) for the year		22,944	17,487
Hedge revaluations	6	(134)	(29)
Investment revaluations	6	(195)	(3,415)
Land and buildings revaluations	3,6	1,443	1,160
		1,114	(2,284)
Comprehensive income for the year		24,058	15,203
<i>Profit from continuing operations per Ordinary Share (excl. treasury stock)</i>		\$ 0.17	\$ 0.15
<i>Profit per Ordinary Share (excl. treasury stock)</i>		\$ 0.16	\$ 0.12
Supplementary non-GAAP note to the results for the year:			
<i>Profit/(loss) for the year</i>		22,944	17,487
<i>Plus Bull team revaluation</i>		718	7,220
<i>Less Fair value change in Nil Paid Share receivable</i>		(1,200)	-
<i>Tax effect on Bull team revaluation</i>		(201)	(2,022)
Underlying earnings		22,261	22,685
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		\$ 0.16	\$ 0.16

Key results and position

STATEMENT OF POSITION FOR THE YEAR As at 31 May 2021

	Note	2021	2020
<i>In thousands of New Zealand dollars</i>			
Cash		18,821	16,488
Debtors	8	42,973	41,144
Assets held for sale	14	26,471	-
Other assets	8	25,042	27,869
Nil Paid Shares receivable	6	13,491	15,727
Bull team	2	114,790	115,508
Land, buildings and equipment - owned & leased	3,5	95,114	95,394
Software, goodwill and other intangible assets	4	45,303	67,810
Total assets		382,005	379,940
Creditors	7	24,541	22,363
Liabilities held for sale	14	2,656	-
Borrowings	7	-	1,616
Deferred tax	9	31,935	34,543
Other liabilities	11	28,750	31,176
Total liabilities		87,882	89,698
Net assets		294,123	290,242
Share capital	6	76,737	78,432
Retained earnings	6	175,565	170,720
Other reserves	6	41,821	41,090
Total equity		294,123	290,242



Director
Date: 21 July 2021



Director
Date: 21 July 2021

Key results and position

STATEMENT OF CASH FLOWS FOR THE YEAR For the year ended 31 May 2021

	Note	2021	2020
<i>In thousands of New Zealand dollars</i>			
Customer receipts	1	254,989	253,702
Supplier payments		(200,765)	(192,981)
Tax payments		(13,477)	(8,385)
Other operating cash flows		(291)	(318)
Net operating cash flows	13	40,456	52,018
Software development	4	(7,658)	(13,822)
Net sales/(purchases) of land, buildings and equipment	3	(7,845)	(6,229)
Other investment cash flows		(612)	(1,350)
Net investment cash flows		(16,115)	(21,401)
Payment of principal portion of lease liabilities		(3,460)	(2,964)
Drawdown/(repayment) of borrowings		(1,616)	(3,000)
Investment Share repurchases	6	(1,695)	-
Nil Paid Share receipts		352	386
Dividends paid		(15,398)	(13,117)
Net financing cash flows		(21,817)	(18,695)
Movement in cash for year		2,524	11,922
Cash at beginning of the year		16,488	4,529
Currency movement on cash holdings		(191)	37
Cash at end of the year		18,821	16,488

STATEMENT OF CHANGES IN POSITION FOR THE YEAR For the year ended 31 May 2021

<i>In thousands of New Zealand dollars</i>	Note	Share capital	Retained earnings	Other reserves	Total equity
Balance at 1 June 2020		78,432	170,720	41,090	290,242
Profit/(loss) for the year		-	22,944	-	22,944
Dividends paid		-	(18,156)	(326)	(18,482)
Hedge revaluations		-	-	(134)	(134)
Investment revaluations		-	-	(195)	(195)
Land and buildings revaluations	3	-	-	1,443	1,443
Acquisition of minority interest in subsidiary		-	57	(57)	-
Investment share repurchases	6	(1,695)	-	-	(1,695)
Balance at 31 May 2021		76,737	175,565	41,821	294,123
Balance at 1 June 2019		78,432	169,765	43,240	291,437
Adjustments on adoption of NZ IFRS 16		-	(704)	-	(704)
Profit/(loss) for the year		-	17,281	206	17,487
Dividends paid		-	(15,622)	(72)	(15,694)
Hedge revaluations		-	-	(29)	(29)
Investment revaluations		-	-	(3,415)	(3,415)
Land and buildings revaluations	3	-	-	1,160	1,160
Balance at 31 May 2020		78,432	170,720	41,090	290,242

Accounting Policies

Accounting entity

These financial statements set out the performance, position and cash flows of Livestock Improvement Corporation Limited ("LIC" or the "Company") and its subsidiaries (the "Group") for the year ended 31 May 2021.

LIC is domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and listed on the Main Board of the New Zealand Stock Exchange Limited ("NZX"). LIC is an FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

Basis of Preparation

(i) Statement of compliance

These financial statements comply with NZ GAAP as appropriate for Tier 1, for-profit entities, NZIFRS and IFRS.

(ii) Basis of measurement

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.

(iii) Functional and presentation currency

The functional currency of the Company and the presentation currency of the financial statements is New Zealand Dollars ("NZD"), with amounts rounded to the nearest thousand.

(iv) Use of estimates and judgements

The key estimations and judgements made in preparing these financial statements are the valuation of the Bull team and the impairment testing of software and other intangible assets.

(v) New or amended standards adopted in current year and standards issued but not yet effective

The accounting policies have been applied consistently with prior periods.

Notes to the Financial Statements

1. Business analysis

(i) Operating segments

The Group operates in four key operating segments, and across four key geographies as set out below. Figures in the following tables reflect information regularly reported to the Chief Executive on those key operating segments:

- NZ market genetics: provides bovine genetic breeding material and related services, predominately to dairy farmers.
- Herd testing: herd testing and animal recording for pastoral farmers.
- Farm software: data recording, tags and farm management information services.
- Diagnostics: provides DNA and animal health testing services.

In thousands of New Zealand dollars

2021	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	99,256	35,397	50,810	23,331	40,219	-	249,013
Inter-segment revenue	-	-	-	-	4,026	(4,026)	-
Total revenue	99,256	35,397	50,810	23,331	44,245	(4,026)	249,013
Depreciation & amortisation	(1,059)	(5,308)	(3,591)	(1,124)	(10,917)	-	(21,999)
Segment gross profit before tax	65,720	20,101	36,607	10,597	16,494	-	149,519
Bull team revaluation							(718)
Unallocated amounts							(117,791)
Profit/(loss) before tax expense from continuing operations							31,010

2020	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	97,159	32,051	49,969	24,677	37,077	-	240,932
Inter-segment revenue	-	-	-	-	3,126	(3,126)	-
Total revenue	97,159	32,051	49,969	24,677	40,203	(3,126)	240,932
Depreciation & amortisation	(1,106)	(4,475)	(7,528)	(1,119)	(12,638)	-	(26,866)
Segment gross profit before tax	65,226	18,768	31,633	14,144	12,584	-	142,355
Bull team revaluation							(7,220)
Unallocated amounts							(110,615)
Profit/(loss) before tax expense from continuing operations							24,520

The Other segment includes international operations, research & development and support services. Unallocated amounts include personnel costs, other expenses and net finance costs. The 2020 segments have been updated to replace Farm automation (discontinued operations) with Diagnostics and to use a consistent measure of segment gross profit before tax.

Notes to the Financial Statements

1. Business analysis (cont.)

(ii) Geographic analysis

In thousands of New Zealand dollars

	New Zealand	Australia	Ireland	United Kingdom	Other	Total
2021						
Revenues	229,173	9,115	2,346	3,433	4,946	249,013
Non-current assets	267,608	5,582	563	8,274	-	282,027
2020						
Revenues	223,947	8,137	1,716	4,000	3,132	240,932
Non-current assets	292,628	6,143	484	8,701	-	307,956

Non-current assets includes the Bull team, Land, buildings & equipment, Software, goodwill and other intangible assets, Nil Paid Share receivable and investments.

The Group's significant subsidiaries are:

- **New Zealand:** LIC Agritechnology Company Limited (100%), LIC Automation Limited (100%) (discontinued operations)
- **Australia:** Livestock Improvement Pty Ltd (100%), Beacon Automation Pty Ltd (100%)
- **Ireland:** LIC Ireland Limited (100%)
- **United Kingdom:** Livestock Improvement Corporation (UK) Ltd (100%)

The Group is not dependent on any one major customer in any of its reportable segments. New Zealand revenues include government research and development grant income of \$7.273 million (2020: \$4.834 million).

2. Bull team

The bull team is the cornerstone asset of LIC's genetics business. The 938 total bulls (2020: 943 bulls) from which the bull team are selected are carried at their fair value, which is based on LIC's modelling of future cash flows from the bulls (a "Level 3 valuation"). Changes in their fair value are reported in profit. The fair value from the bulls is partly dependent on the future sales mix of LIC's genetics products, which is historically strongly correlated to the Farmgate Milk Price paid by Fonterra Co-operative Group. The valuation is also sensitive to a change in the WACC rate used to discount future cash flows and the run off profile of bulls that make up the bull team.

In thousands of New Zealand dollars

	2021	2020
Opening balance	115,508	122,728
Bull team revaluation	(718)	(7,220)
Closing balance	114,790	115,508

Key drivers of the model:

Mean 3 year forward Fonterra Farmgate Milk Price*	\$7.51	\$6.35
WACC annualised post tax rate	5.16% - 7.20%	5.59% - 6.48%
Number of bulls in the team	136	120
Run off profile - % of Genomic bulls in the team from 2-4 years	53% - 0%	53% - 0%

* This is the average of market analyst consensus

The impact on the fair value of a change to these key drivers is summarised below:

	2021	2020
Milk Price (and associated impact on demand) changes by \$1.50 (2020: \$0.75)	\$14.2m	\$20.0m
WACC moves 100 basis points	\$3.6m	\$3.7m
Run off profile	\$1.0m impact per 1% shift in profile	

Notes to the Financial Statements

3. Land, buildings and equipment

Land and buildings are carried at fair value, determined by an independent valuer at least every three years (most recent full valuation as at April 2021). Revaluations are reflected in the revaluation reserve. Equipment includes plant, vehicles, furniture and fittings and IT hardware, and is carried at depreciated cost. Buildings and equipment are depreciated on a straight-line basis over their estimated useful lives, and reviewed annually for any indications of impairment.

<i>In thousands of New Zealand dollars</i>	2021				2020			
	Land	Buildings	Equipment	Total	Land	Buildings	Equipment	Total
Opening balance	34,265	39,172	21,957	95,394	35,417	28,154	17,463	81,034
Additions	-	3,755	4,741	8,496	-	2,282	4,955	7,237
Disposals	-	(57)	(240)	(297)	(1,152)	(336)	(113)	(1,601)
Depreciation	-	(1,930)	(6,040)	(7,970)	-	(1,988)	(5,954)	(7,942)
Revaluation	1,490	(238)	-	1,252	-	1,721	-	1,721
Foreign exchange	-	(10)	(19)	(29)	-	(15)	30	15
Leased assets movement - note 5	-	(947)	758	(189)	-	9,354	5,576	14,930
Held for sale - note 14	(875)	(265)	(403)	(1,543)	-	-	-	-
Closing balance	34,880	39,480	20,754	95,114	34,265	39,172	21,957	95,394
<i>Value if carried at cost</i>	<i>11,691</i>	<i>21,030</i>	<i>N/A</i>		<i>11,691</i>	<i>19,322</i>	<i>N/A</i>	
<i>Estimated useful lives</i>	<i>N/A</i>	<i>10-60 years</i>	<i>3-10 years</i>		<i>N/A</i>	<i>10-40 years</i>	<i>3-10 years</i>	

4. Software and other intangibles

(i) Software and other intangible asset balances

Software development expenditure is capitalised only where costs are directly attributable, and once the product or process is commercially feasible, the benefits are probable, and the Group intends to sell or use the completed software.

Software assets are amortised over their useful lives of up to seven years on a straight line basis, and reviewed annually for indicators of impairment.

Intellectual property (IP) assets are amortised over their estimated useful lives, being up to 13 years.

The genetic data in the LIC database increases in value with each successive generation. Both goodwill and the LIC database have indefinite useful lives. They are recognised at cost and are not amortised, are allocated to a cash generating unit ("CGU") and tested for impairment annually.

<i>In thousands of New Zealand dollars</i>	2021				2020			
	Software & IP	Goodwill	Database	Total	Software & IP	Goodwill	Database	Total
Opening balance	50,810	6,500	10,500	67,810	56,810	6,471	10,500	73,781
Additions	7,750	-	-	7,750	13,713	-	-	13,713
Disposals/impairment	(3,260)	-	-	(3,260)	(71)	-	-	(71)
Amortisation	(14,194)	-	-	(14,194)	(19,765)	-	-	(19,765)
Foreign exchange	(64)	(26)	-	(90)	123	29	-	152
Held for sale - note 14	(8,569)	(4,144)	-	(12,713)	-	-	-	-
Closing balance	32,473	2,330	10,500	45,303	50,810	6,500	10,500	67,810

Notes to the Financial Statements

4. Software and other intangibles (cont.)

At reporting date, software includes \$18.155 million (2020: \$20.565 million) of work in progress of which \$4.162 million is held for sale. Work in progress is not amortised until it is ready for use.

(ii) Impairment testing of intangible assets

Allocation of Goodwill and the LIC Database to CGUs:

<i>In thousands of New Zealand dollars</i>	2021				2020			
	Farm software and herd testing	Farm automation	Other	Total	Farm software and herd testing	Farm automation	Other	Total
	CGU	CGU	CGU		CGU	CGU	CGU	
LIC database	10,500	-	-	10,500	10,500	-	-	10,500
Goodwill	-	4,144	2,330	6,474	-	4,144	2,356	6,500
Held for sale - note 14	-	(4,144)	-	(4,144)	-	-	-	-
	10,500	-	2,330	12,830	10,500	4,144	2,356	17,000

The LIC database and Other CGU goodwill recoverable amounts have been determined using value in use. The recoverable amount of Farm automation goodwill has been determined using a fair value less costs of disposal method.

For the LIC database and Other Goodwill CGU a discounted cash flow model is used for impairment testing based on expected results and capital expenditure from the current year forecast, Board approved budgets and a projection for further periods using a terminal growth rate. A five year cash flow projection period is used. The terminal growth rate used is 0-1.0% (2020: 0-1.0%) for the Database and Goodwill. The discount rate applied is reviewed and updated annually for movements in published Treasury risk-free rates and is 7.2% for the Database and 7.2% for Goodwill (2020: 6.8% for the Database and 6.8-10.2% for Goodwill).

5. Leases

(i) LIC as a lessee

The Group has lease contracts for buildings, equipment and vehicles used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Several lease contracts include extension and termination options. The Group's discount or incremental borrowing rate applicable to leases is 4.4% (2020: 4.4%).

The Group also has certain leases of machinery with lease terms of 12-months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Notes to the Financial Statements

5. Leases (cont.)

(ii) Lease balances in the Statement of Position

Right of use assets

Set out below are the carrying amounts of right-of-use assets recognised (under Land, buildings and equipment) and the movements during the period:

In thousands of New Zealand dollars	2021				2020			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Opening Balance	9,354	365	5,211	14,930	10,386	250	4,911	15,547
Depreciation	(1,271)	(186)	(1,928)	(3,385)	(1,295)	(153)	(1,657)	(3,105)
Additions	414	-	2,935	3,349	273	268	1,952	2,493
Adjustments/Derecognition	(90)	14	(77)	(153)	(10)	-	5	(5)
Held for sale - note 14	(874)	(8)	(273)	(1,155)	-	-	-	-
Closing balance	7,533	185	5,868	13,586	9,354	365	5,211	14,930

Lease terms	2-10 years	2-5 years	3-7 years	2-10 years	2-5 years	3-7 years

Lease liabilities

Set out below are the carrying amounts of lease liabilities recognised at 31 May 2021 (included in Other liabilities) excluding lease liabilities held for sale:

In thousands of New Zealand dollars	2021				2020			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Within 1 year	956	101	1,916	2,973	1,268	202	1,692	3,162
Between 1 to 5 years	3,365	46	3,992	7,403	4,282	170	3,400	7,852
More than 5 years	3,873	-	182	4,055	4,596	-	300	4,896
	8,194	147	6,090	14,431	10,146	372	5,392	15,910

(iii) Lease balances in the Statement of Results for continued operations

In thousands of New Zealand dollars	2021				2020			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Depreciation	921	181	1,801	2,903	1,295	153	1,657	3,105
Interest expense	350	9	254	613	404	12	278	694
Short-term and low-value leases	-	75	-	75	-	75	-	75
Total amount	1,271	265	2,055	3,591	1,699	240	1,935	3,874

The Group had total cash outflows for leases of \$4.230 million in 2021 (\$4.075 million in 2020).

Notes to the Financial Statements

6. Funding

The Group's funding comes from Share capital, retained earnings, other reserves and borrowings.

(i) Ordinary

Shares In July 2018 LIC's share structure was simplified and its two classes of shares, Investment Shares and Co-operative Control Shares, were brought together into a single class of Ordinary Shares. All Ordinary Shares have voting rights and the right to receive dividends based on the profits of the Company.

Following approval by the Shareholders of the share simplification described above, a small number of Shareholders elected to exercise their minority buy-out rights arising from the proposal under the Companies Act 1993. As a result, LIC agreed to purchase the 1.3 million Investment Shares held by the Shareholders concerned, to be held as treasury stock. During the current year LIC has been required to pay an additional \$1.7 million to acquire these Investment Shares and as a consequence Share Capital has decreased to \$76.7 million (2019: \$78.4 million).

At reporting date there were 142,344,836 Ordinary Shares on issue, excluding 5,337,584 shares held as treasury stock (2020: 142,344,836 Ordinary Shares, excluding 5,337,584 shares held as treasury stock).

(ii) Nil Paid Shares

Ordinary Shares includes both fully paid shares and shares on which full payment has not yet been made. These Nil Paid Shares must be paid up over time by Shareholders via a combination of dividend payments forgone, voluntary payments and payments made on exit as a Shareholder. At year-end the outstanding amount on Nil Paid Shares has been recorded in the Statement of Position as a receivable, valued at \$13.491 million (2020: \$15.727 million) using a discounted cash flow model. The model uses assumptions on expected future dividends, voluntary and compulsory payments and applies a discount rate of 4.5% (2020: 4.5%).

(iii) Other reserves and equity

<i>In thousands of New Zealand dollars</i>	Hedge revaluation reserve	Investment revaluation reserve	Land & building revaluation reserve	Non- controlling interests	Other reserves
Balance at 1 June 2020	68	5,058	35,581	383	41,090
Profit/(loss) for the year	-	-	-	-	-
Dividends paid	-	-	-	(326)	(326)
Revaluations	(134)	(195)	1,443	-	1,114
Acquisition of minority interest in subsidiary	-	-	-	(57)	(57)
Balance at 31 May 2021	(66)	4,863	37,024	-	41,821
Balance at 1 June 2019	97	8,473	34,421	249	43,240
Profit/(loss) for the year	-	-	-	206	206
Dividends paid	-	-	-	(72)	(72)
Revaluations	(29)	(3,415)	1,160	-	(2,284)
Balance at 31 May 2020	68	5,058	35,581	383	41,090

(iv) Bank debt

Bank loans are secured by a Negative Pledge granted to Westpac and Rabobank over certain New Zealand-based subsidiaries.

Notes to the Financial Statements

7. Liquidity and interest rate risk

(i) Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to pay the Group's debts as they fall due. The Group manages the risk by monitoring forecast cash flows and holding sufficient bank facilities to meet the Group's needs. The contractual maturity of the Group's funding is shown below.

<i>In thousands of New Zealand dollars</i>	2021				2020			
	Demand to 6 months	6 months to 1 year	1 year plus	Total	Demand to 6 months	6 months to 1 year	1 year plus	Total
Borrowings	-	-	-	-	1,616	-	-	1,616
Creditors	24,541	-	-	24,541	22,363	-	-	22,363
	24,541	-	-	24,541	23,979	-	-	23,979

The Group has bank funding facilities in place until February 2023 and expects to be able to meet any obligations which fall due.

(ii) Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the Group's results or position. The weighted average effective interest rate paid on borrowings in 2021 was 3.8% (2020: 3.2%). A 1% increase in interest rates would reduce profit after tax by approximately \$0.087 million (2020: \$0.126 million).

8. Debtors and other assets

(i) Debtors

Bad debts of \$0.070 million have been expensed during the year (2020: \$0.038 million), and 90% of trade receivables are not past due (2020: 92%).

<i>(ii) Other assets</i>	2021	2020
<i>In thousands of New Zealand dollars</i>		
Inventories	11,038	13,599
Investments	13,329	13,516
Derivatives used for hedging	-	61
Other livestock	675	693
	25,042	27,869

Inventories utilised and expensed during the period amounted to \$30.053 million (2020: \$22.857 million), of which \$7.126 million (2020: \$3.925 million) related to discontinued operations. Inventories written off in 2021 totalled \$0.478 million (2020: \$0.259 million).

Notes to the Financial Statements

9. Tax

Tax expense is recognised for items arising this year that are either taxable this year (current tax) or in other years (deferred tax). The main items giving rise to deferred tax are revaluations of the Bull team and Buildings.

(i) Tax expense

<i>In thousands of New Zealand dollars</i>	2021	2020
Profit/(loss) for the year from continuing operations	23,613	21,055
Tax expense	7,397	3,465
Profit/(loss) before tax expense from continuing operations	<u>31,010</u>	<u>24,520</u>
Tax at 28% NZ company tax rate	8,683	6,866
Effect of overseas income	31	(11)
Non-deductible items	(1,582)	44
Adjustments from prior periods	265	(410)
Impact of changes to building depreciation	-	(3,024)
Tax expense	<u>7,397</u>	<u>3,465</u>
<i>Current tax expense</i>	<i>9,987</i>	<i>10,211</i>
<i>Deferred tax expense</i>	<i>(2,590)</i>	<i>(6,746)</i>
<i>Imputation credits available</i>	<i>27,181</i>	<i>21,244</i>

LIC is in the process of transitioning to the R&D Tax Incentive from the Callaghan Growth Grant and has made an initial claim for the year ended 31 May 2020. The R&D Tax Incentive claim includes both core R&D expenditure, as well as other expenses that support R&D. The R&D Tax Incentive is recorded as non-taxable revenue.

(ii) Deferred tax liability

<i>In thousands of New Zealand dollars</i>	As at 31 May 2021	Through Profit/(loss)	Through Other reserves	As at 31 May 2020	Through Profit/(loss)	Through Other reserves	As at 31 May 2019
Livestock	31,784	(199)	-	31,983	(1,983)	-	33,966
Buildings & other	151	(2,391)	(18)	2,560	(4,763)	451	6,872
Total	<u>31,935</u>	(2,590)	(18)	<u>34,543</u>	(6,746)	451	<u>40,838</u>

10. Other expenses

Other expenses includes the following amounts paid to the Group's auditors, KPMG:

<i>In thousands of New Zealand dollars</i>	2021	2020
Audit of the financial statements - current year	187	147
Audit of the financial statements - prior year	29	39
Research & development tax incentive services	204	9
Other assurance work	-	6
	<u>420</u>	<u>201</u>

KPMG provided compliance services in 2021 relating to the R&D Tax Incentive.

Notes to the Financial Statements

11. Other liabilities

<i>In thousands of New Zealand dollars</i>	2021	2020
Provisions for employee entitlements	7,899	5,597
Provision for sire proving rebate	2,670	2,582
Provision for tax	3,214	6,964
Lease liabilities	14,431	15,910
Other	536	123
	28,750	31,176

12. Transactions with Related Parties - Directors and Management

The Group has had the following short-term transactions with key Management and Directors during the year, noting sale of goods and services were under normal trade terms:

<i>In thousands of New Zealand dollars</i>	2021	2020
Remuneration of key Management and Directors	4,573	4,507
Sale of goods and services to key Management and Directors	598	620
Purchases of goods and services from key Management and Directors	213	108

Directors of the Company and their related entities hold 285,426 Ordinary Shares, representing 0.19% of shares on issue (2020: 307,952 Ordinary Shares, representing 0.21%).

There are no loans or deposits with related entities outside of the consolidated Group.

13. Reconciliation of the Profit/(loss) for the year to Net operating cash flows

<i>In thousands of New Zealand dollars</i>	2021	2020
Profit/(loss) for the year	22,944	17,487
Adjusted for:		
Depreciation and amortisation on owned assets	22,164	27,707
Bull team revaluation	718	7,220
Lease liability principal repayment (classified as financing activity)	(3,460)	(2,964)
Working capital movements and other non-cash items	(1,910)	2,568
Net operating cash flows	40,456	52,018

Notes to the Financial Statements

14. Discontinued operations

On 8 June 2021 LIC announced it had entered into an agreement to divest its automation business for \$38.1 million, subject to customary requirements. The transaction was completed on 11 June 2021.

Accordingly the Farm automation segment has been reclassified as a discontinued operation and is no longer presented in the business analysis note. The results for discontinued operations are presented below:

<i>In thousands of New Zealand dollars</i>	2021	2020
Revenue	17,399	13,048
Purchased materials	(6,693)	(4,591)
People costs	(4,453)	(5,452)
Depreciation and amortisation	(3,551)	(3,946)
Research and development	(716)	(1,163)
Other expenses	(3,014)	(2,765)
Net finance costs	99	(87)
Profit/(loss) before tax expense from discontinued operations	(929)	(4,956)
Tax expense	260	1,388
Profit/(loss) for the year from discontinued operations	(669)	(3,568)
<i>Profit from discontinued operations per Ordinary Share (excl. treasury stock)</i>	<i>\$ -</i>	<i>\$ (0.03)</i>

The major classes of assets and liabilities classified as held for sale at 31 May are as follows:

<i>In thousands of New Zealand dollars</i>	2021
<i>Assets</i>	
Debtors	8,973
Other assets	3,242
Land, buildings and equipment - owned & leased	1,543
Software, goodwill and other intangible assets	12,713
Total assets held for sale	26,471
<i>Liabilities</i>	
Creditors	1,289
Other liabilities	1,367
Total liabilities held for sale	2,656
Net assets	23,815

The net cash flows arising from discontinued operations are presented below:

<i>In thousands of New Zealand dollars</i>	2021	2020
Operating	1,094	459
Investing	(708)	(2,824)
Financing	150	(125)
Movement in cash for the year	536	(2,490)

Notes to the Financial Statements

15. Subsequent events

After 31 May 2021 a dividend of 12.51 cents per Ordinary Share was proposed by the Directors in relation to the 2021 year, or \$17.8 million (2020: 12.75 cents per Ordinary Share, or \$18.1 million).

The agreement to divest LIC's automation business was settled on 11 June 2021 - please refer to note 14 for details.



Independent Auditor's Report

To the shareholders of Livestock Improvement Corporation Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Livestock Improvement Corporation Limited (the 'company') and its subsidiaries (the 'group') on pages 2 to 16:

- i. present fairly in all material respects the Group's financial position as at 31 May 2021 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of position as at 31 May 2021;
- the consolidated statements of results, changes in position and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

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

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

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

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



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$1.2m determined with reference to a benchmark of profit/(loss) for the year before tax (excluding bull team revaluation movements).



Key audit matters

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

The key audit matter

How the matter was addressed in our audit

Valuation of the Bull Team

Refer to Note 2 to the Financial Statements

Determining the valuation of the bull team, which is the core asset to both the domestic and international genetics operations of the Group, is a highly judgemental and complex area. Management prepare a model that projects the number of straws that the current team can produce and will be sold over the life of the bulls. The valuation model factors the cost of rearing, animal and farm management costs, and forecasts of processing costs to make sales. The calculated surplus is discounted to reflect the time value of money.

Our audit procedures included, among others, valuation specialist review of the model and challenge of management's significant assumptions such as:

- Projected sales volumes and pricing;
- Discount rates applied; and
- Runoff Profile of the bulls.

We compared sales and costs growth, and inflation rates to historical data and published market forecast data where available. We reviewed market and industry data to assess management's discount rate applied to the financial model. We assessed the runoff profile of the bulls against historical data. We found the inputs to be comparable.

We also considered management's forecasts in previous years and found it to be sufficiently accurate based on actual results achieved.

Carrying Value of Intangible Assets

Refer to Note 4 to the Financial Statements.

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

- Goodwill of \$6.5m, arising primarily from acquisitions made to facilitate growth and diversification of the Group's farm automation products; and
- The LIC Animal Database of \$10.5m which is used by the Group to deliver its Herd Testing and Farm Software services.

Two of the three significant cash generating units (CGUs) holding these assets are tested annually for impairment using discounted cashflow models to determine the recoverable amount. The third significant cash generating unit was tested for impairment by determining the fair value less costs of disposal.

The annual impairment tests performed by the Group were significant to our audit due to the

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

- Assessing management's future sales and growth assumptions compared to external market and industry data and historical performance of each of the CGU's. We used our own valuation specialists to assist us with the consideration of the discount rates;
- Comparing management's previous forecasts to actual results achieved in each CGU; and
- Performing sensitivity analysis around the key assumptions used in the model.

We compared the fair value less costs of disposal amount for the third cash generating unit to the supporting sale agreement.

We also challenged management on whether the market capitalisation of the Group is an indicator of impairment and subsequently used our own valuation specialists to challenge

The key audit matter**How the matter was addressed in our audit**

magnitude of the intangible assets and because the discounted cashflow models involve judgement about the future performance of the CGU's, including considering future economic and market conditions.

management's assessment of appropriate maintainable earnings and earnings multiple applied in their impairment test.

Our testing supported management's conclusion that there is no impairment.

 **Other information**

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

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

**Use of this independent auditor's report**

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

**Responsibilities of the Directors for the consolidated financial statements**

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

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



x Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

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

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

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

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

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is **Trevor Newland**.

For and on behalf of

Hamilton

21 July 2021

Directors' Report 2020-21

Farmers investing in high value genetics to help meet sector's climate goals

The LIC Board announces the co-op's financial results for the year ended 31 May 2021, reporting increased revenue, profit and a strong balance sheet with no debt at year end.

The farmer-owned co-operative will return \$17.8 million in dividend to shareholders, which equates to 12.51 cents per share. The fully imputed dividend represents a significant gross yield based on the current share price. The dividend will be distributed on 20 August.

The LIC Board is proud to present another strong result to our farmer shareholders for the fourth consecutive year. This result is in line with our market guidance and a credit to our shareholders for their support of significant initiatives in the last five years to transform LIC into a modern, progressive co-op. These initiatives have delivered the benefits we said they would, including focussed investment in the business and a better return for our farmers.

We have seen good growth across core business areas this year but particularly in our premium genetics range where young genomically-selected bulls are used to fast track genetic gain and deliver more value on-farm through increased productivity and efficiency, including improved environmental efficiency.

That value combined with a solid dividend makes this result a win-win for our farmers. It also means we can continue our work to invest in products, services and technology that drive long term and sustainable customer value.

LIC's premium genetics range accounted for almost half of the co-op's total artificial breeding (AB) inseminations (41.3% or 1.79 of 4.3 million semen straws), more than double three years ago. This is predominantly from the Forward Pack and A2/A2 teams with young genomic bulls (1.6 million straws).

The range also includes sexed semen which experienced significant growth with triple the number of straws sold on the previous year (110,125 compared with 33,804).

This growth will have a significant impact on-farm this spring and deliver a huge amount of value to our farmers, with more high quality heifer replacements and fewer bobby calves. We are expecting this to be even greater next year with sexed semen orders likely to almost double again.

Meanwhile, the number of daughter proven bulls used for AB continued to decline, now down 40% (1.2 million straws in 20-21 vs 2.02 million three years ago), reflecting farmers' growing confidence in LIC's proprietary genomic work and a willingness to adopt new tools and solutions to help them meet sustainability goals.

LIC exists to deliver superior genetics and technological innovation to help our shareholders sustainably farm a profitable animal. We have a fundamental role in helping New Zealand's dairy farmers reduce their environmental footprint and we are committed to providing solutions to help them meet climate targets.

We have invested heavily into genomics for our farmers, because the DNA of our dairy herd can do a lot of the heavy lifting to help meet our sectors' climate goals.

World leading pastoral dairy genetics and genomics are a much more precise tool for farmers than the blunt instrument of reduced cow numbers. Farmers are adopting these tools now to get ahead of the curve.

The co-op is continuing its work with NZAEL (subsidiary of DairyNZ) to include genomics in future animal evaluations to support the national breeding objective.

Directors' Report 2020-21

In other core business activity, herd testing was up 7.3% and animal health testing up 23.9% primarily for Johnes disease and milk pregnancy testing. International exports were also up 23% by value after some initial challenges getting product to market due to COVID-19.

The co-op invested \$17.1 million in R&D, up 15.4% from the previous year (or up 11.5% including automation), reaffirming its position as one of the biggest investors for the primary sector. LIC also spent \$3.0 million to improve its MINDA LIVE herd management system, with 66 new features added based on farmer feedback.

During 2020-21 LIC also refined its business strategy to put value for farmer shareholders at its heart.

We have listened to our shareholders. They want us to focus on doing what we are good at and play to our strengths in pastoral dairy genetics and herd improvement. Our strategy is focussed on ensuring our farmers optimise value from their livestock, and this result means we are strongly positioned to deliver on that.

During the year, the co-op negotiated the divestment of its automation business to MSD Animal Health, a division of Merck & Co., Inc., Kenilworth, N.J., USA (NYSE:MRK) for NZ\$38.1 million (NZX, 8 June 2021). The sale was completed on 11 June 2021. Net assets of \$23.8 million have been recorded as held for sale on the balance sheet. The Board is considering options for the use of these funds.

Outlook

Recruitment of a new chief executive is a priority for the Board over the coming months, following Wayne McNee's decision to step down at the end of November 2021 (NZX, 14 June 2021).

The co-op will also be firmly guided by its primary focus of delivering value for farmer shareholders and three commitments in its refined strategy, with operational excellence, faster genetic improvement and software reliability and performance.

LIC expects underlying earnings in 2021-22 to be in the range of \$19-25 million, excluding the gain on divestment of the automation business and assuming no significant climate event or milk price change takes place between now and then, nor any major impacts from M. bovis or COVID-19.

We thank you for all your support over the last 12-months and look forward to the year ahead.

Corporate Governance Report

Corporate Governance Statement

Livestock Improvement Corporation (“LIC” or the “Company”) is a New Zealand Co-operative Company, owned by NZ dairy farmers. Its shares are quoted on the New Zealand Stock Exchange (NZX). In this section of the 2021 Annual Report, we report against the Principles and Recommendations of the NZX Corporate Governance Code (the NZX Code) and the extent that LIC has followed the NZX Code’s recommendations. This statement is current to 31 May 2021, and has been approved by the Directors of LIC.

LIC is primarily involved in the development, production and marketing of artificial breeding, genetics, farm software, 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.

On LIC’s website (<https://www.lic.co.nz/shareholders/corporategovernance/>) you will find the following corporate governance documents:

- Constitution
- Code of Conduct and Ethics
- LIC Board Charter
- Audit, Finance & Risk Committee Charter
- Remuneration and Appointment Committee Charter
- Disclosure Committee Charter
- External Audit Independence Policy
- Share Trading and Disclosure Policy
- Continuous Disclosure Policy
- Diversity and Inclusion Policy
- Dividend Policy

Co-operative Principles

LIC’s co-operative principles are set out in its Constitution and are:

- a) The Company will remain a Co-operative Company;
- b) The Company is controlled by Users of the Company’s qualifying products and services;
- c) Core products and services are made available to all Shareholders at fair commercial prices;
- d) 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
- e) Shareholders co-operate with the Company and each other, including the sharing of information to promote their common interests.

NZX Code Principle 1, Code of Ethical Behaviour: Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Code of Conduct and Ethics

LIC’s Code of Conduct and Ethics sets out the ethical and behaviour standards expected of Directors and employees of LIC. The Policy is reviewed biennially (or as required) to keep it up to date with employee, shareholder and other stakeholder expectations. Directors and employees are also expected to uphold LIC’s values of integrity, innovation, being in-tune with our farmers, passion and spirit of cooperation.

Corporate Governance Report

Whistleblowing

The Code of Conduct and Ethics and the Company's Employment Relations Policy, which are available to employees on LIC's intranet, include guidance on specific action to be taken by a person who suspects a serious wrongdoing.

Avoiding conflicts of interest

The Code of Conduct and Ethics includes direction on disclosing and managing conflicts of interest. The Board updates changes in interests and any potential conflicts at each meeting. The Company Secretary holds a Directors' interests register and the Board reviews the register at each meeting. The register records relevant transactions and disclosures of interests. The Directors' interests are set out on page 40.

Trading in securities

The Company has a Share Trading and Disclosure Policy for Directors, members of the Company's Shareholder Reference Group (SRG), Restricted Persons and other Employees wanting to deal in the securities of the Company.

The Policy outlines:

- when Directors, members of the SRG, Restricted Persons and other Employees of the Company may deal in the shares of the Company;
- procedures to reduce the risk of insider trading; and
- disclosure requirements.

The Policy records the Company's procedures for compliance with the Financial Markets Conduct Act 2013 (FMC Act), the NZX Listing Rules and other relevant legislation/regulation for the trading and disclosure of trading in the shares of the Company and details the exemption granted by the Financial Markets Authority from certain provisions of the FMC Act. The exemption permits LIC's constitutional and co-operative requirements and the Rules of its Employee Share Scheme to operate alongside the insider trading provisions of the FMC Act.

The Policy aims to protect Directors, members of the SRG, 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 shares.

An Elected Director must hold the minimum shareholding requirement and can hold additional shares in accordance with the Company's Constitution.

NZX Code Principle 2, Board composition and performance: To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

Role of the Board

Legislation, the NZX Listing Rules and the Constitution establish the Board's responsibility and include provisions for how the Company will operate. The structure of the Board and its governance arrangements are set out in the Company's Constitution and in the Board's written Charter which outlines the Board and Management's roles and responsibilities. The Board is responsible for the direction and control of LIC's activities. It is also committed to the guiding values of the Company.

Corporate Governance Report

Board responsibilities

The Board is responsible for setting the strategy of LIC and monitoring delivery against that strategy, recognising the Company's economic, environmental and social responsibilities.

In 2021 the Board refined LIC's business strategy and purpose - to deliver superior genetics and technological innovation to help shareholders sustainably farm a profitable animal. Value for our farmer shareholders is at the heart of our strategy.

LIC will drive value, innovate and deliver a positive impact for customers and shareholders by focussing on helping farmers optimise value from their livestock by enabling them to produce the most sustainable and efficient animals and the highest value product.

The refined strategy makes three commitments to farmers:

1. Operational Excellence. LIC commits to getting the basics right and delivering for farmers, on time, every time.
2. Faster Genetic Improvement. LIC commits to having farmers' backs when it comes to helping them meet the environmental challenges they face, in particular animal efficiency, and nitrogen and methane mitigation.
3. Software Reliability and Performance. LIC commits to being better at delivering its software to farmers. LIC renews its commitment to continuous improvement and transparency around delivery of new features.

Full details of the strategy are available on LIC's website at <https://www.lic.co.nz/about/our-strategy/>

The Board is also responsible for approval of significant expenditures, policy determination, selection of Appointed Directors, and stewardship of the Company's assets. Management is responsible for implementing the strategic objectives, operating within the risk appetite set by the Board, and for all other day-to-day running of the Company. The Board delegates the day-to-day leadership and management of the Company to the Chief Executive (CE). The delegations are set out in the Board Charter and in a Delegated Authorities framework, which also sets out authority levels for types of commitments that the Company's management can make. A copy of the Board Charter is available on LIC's website.

Notwithstanding the responsibilities of the Board, the Board and Shareholders will not, except with the written consent of the Minister for Primary Industries, or other relevant Minister, exercise any of their rights, directions and powers under, or alter the Constitution so as to cause or permit the Company to cease to be a Co-operative supplying goods and services to Shareholders.

Board composition

Following approval by Shareholders at the 2020 Annual Meeting of changes to LIC's governance and representation structure, the Board is comprised of six Elected Directors and three Appointed Directors, although the changes to the governance of LIC now allows for up to four Appointed Directors to be appointed to the Board.

Elected Directors are elected by Shareholders within the region each Director represents (two regions in total) and hold office for a period of approximately three years. The term will coincide with the Rotation Schedule upon completion of a transition period. All recommendations and deliberations on the selection of Appointed Directors are undertaken by the full Board. Appointed Directors hold office for approximately three years.

Corporate Governance Report

A retiring Director is eligible for re-election or re-appointment as a Director of the Company. All Appointed Directors have entered into written agreements setting out the terms of their engagement and all newly Elected Directors will also do so.

In relation to the nomination and appointment of Directors, appropriate checks are undertaken. This includes the provision of key information about candidates to Shareholders and/or the Board, such as relevant skills, experience and directorships and any material adverse information of which the Company has become aware.

Information about each Director, including their independence, ownership interests and attendance at board meetings is included in this section. A profile of each Director's experience, including the length of their service, is included on the LIC website.

The current Board of Directors is made up as follows:

- Elected Directors are Murray King (Chair), Gray Baldwin, Ben Dickie, Ken Hames, Matt Ross and Alison Watters. Former Elected Director David Jensen retired from the Board on 14 October 2020 following shareholder approval of the changes to LIC's governance arrangements.
- Appointed Directors are Tim Gibson, Sophie Haslem and Candace Kinser.

Sophie Haslem was due to retire by rotation in October 2020 and sought re-appointment. Sophie's appointment as an Appointed Director was ratified by shareholders at the 2020 Annual Meeting for a further term of approximately three years.

Current South Island Elected Directors, Murray King and Matt Ross, are due to retire by rotation in 2021 and are both seeking re-election. The elections are timed to coincide with the 2021 Annual Meeting.

Appointed Director, Candace Kinser is due to retire by rotation in October 2021 and with the support of the Board, is seeking re-appointment for a further term of three years at the 2021 Annual Meeting.

Corporate Governance Report

Meetings

The Board met six times in 2020/21 with four additional strategy days. A further three additional meetings of the Board were held to receive updates on the ongoing impact of COVID-19 on LIC and consider the divestment of LIC's automation business.

Board Attendance:

	Board Meetings		Special Board Meetings		Board Strategy Days	
	<i>Number of meetings held</i>	<i>Number of meetings attended</i>	<i>Number of meetings held</i>	<i>Number of meetings attended</i>	<i>Number of days or part days held</i>	<i>Number of days or part days attended</i>
Gray Baldwin	6	6	3	3	4	4
Ben Dickie	6	6	3	3	4	4
Tim Gibson	6	6	3	3	4	4
Ken Hames	6	6	3	3	4	4
Sophie Haslem	6	6	3	3	4	4
David Jensen*	2	2	2	2	-	-
Murray King	6	6	3	3	4	4
Candace Kinser	6	6	3	3	4	4
Matt Ross	6	6	3	3	4	4
Alison Watters	6	6	3	3	4	4

*Number of meetings held and attended prior to David Jensen's retirement from the Board in October 2020

Director training

Directors each undertake appropriate education to remain current in how to best perform their duties as directors. Directors maintain memberships of relevant bodies such as the Institute of Directors, and receive information individually and from Management in relation to specific issues relevant to LIC, the markets in which it operates and the dairy industry.

The Chair has discussed development plans with each of the Directors. These plans specifically focus on areas that will not only develop the individual Director but will also enhance the overall Board capability. The Board development and engagement plan is actively referenced and reviewed at each Board meeting.

Board, Committee and Director Performance

The Board uses an external party to assist with reviewing the performance of the Board, individual directors and its committees on a regular basis. A formal, independent review is scheduled to be undertaken in 2021.

Director Independence

Directors are appointed in accordance with the Constitution. The current Appointed Directors are not co-operative members and are appointed to bring their external expertise to the Board.

For the purposes of the Listing Rules, the Board has assessed all of the Directors to be independent

Corporate Governance Report

The Board has assessed Murray King's tenure on the Board. The Board has reached the conclusion that Murray's tenure does not interfere, nor could it reasonably be seen to interfere, with his capacity to bring independent judgment to issues before the Board and to act in the best interests of the company and to represent the interests of its shareholders generally.

Murray King has stated his intention to re-stand for election as an Elected Director in 2021 for the South Island Region. The Board considers it appropriate that he seeks re-election to provide shareholders with the option of electing a director able to provide ongoing support of the Board's transition to the new governance structure and to implement the Board's succession plans. In addition, the Chair's experience and expertise will be vital in the appointment of a successor to the current Chief Executive, Wayne McNee, who has recently announced his resignation.

While a number of the Directors are co-operative members and purchase from and sell goods and services to LIC, the Board does not consider them to have a relationship that could reasonably influence, or be perceived to influence, their ability to bring an independent view to decisions in relation to LIC, to act in the best interest of LIC or to represent the interests of LIC Shareholders generally.

Chair

As noted above, LIC's Chair is assessed to be an independent Director. LIC's Board also endorses the separation of the roles of the Chair and Chief Executive (CE) and a Director should not simultaneously hold both roles.

In addition, to ensure appropriate management where necessary, the LIC Board Charter sets out an exception to this whereby the Board may appoint a Director to assume the post of CE concurrently on a temporary basis when the post of CE is vacant, for a period of no longer than six months. This can be extended, only where the position of CE is still vacant for a further maximum period of six months. At the termination of that further period, that Director shall resign from the Board.

NZX Code Principle 3, Board committees: The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

Committees

LIC Board committees review and consider in detail the policies and proposals developed by Management and make recommendations to the Board. They do not take action or make decisions on behalf of the Board unless specifically mandated to do so. A committee or an individual Director can engage independent legal counsel at LIC's expense with the prior approval of the Board Chair.

The Board will occasionally appoint a committee of Directors to consider or approve a specific proposal or action if the timing of meetings or availability of Directors means the matter cannot be considered by the full Board. Their deliberations and decisions are reported back to the Board no later than the next meeting.

Corporate Governance Report

Audit, Finance & Risk Committee

A Sub-Committee of the Board, the Audit, Finance & Risk Committee ensures the Company complies with its audit, financial and risk management responsibilities. It operates under a written charter, which is available on the LIC website. The Committee is chaired by Appointed Director Sophie Haslem with the other members being Murray King, Gray Baldwin, Ken Hames and Ben Dickie. Ken Hames joined the Committee in October 2020 following David Jensen's retirement. A majority of the current members of the Committee are considered to be independent. Management only attends Committee meetings at the invitation of the Committee.

The Committee meets at least four times a year and met six times in 2020/21.

Remuneration and Appointment Committee

A Sub-Committee of the Board, the Remuneration and Appointment Committee approves appointments and terms of remuneration of the Chief Executive, oversees the people policies for LIC and also considers and assists the Board in its director appointment process, and if appropriate recommends to the Board any wage and salary percentage adjustments for the Co-operative's employees. It operates under a written charter, which is available on the LIC website. The Committee is chaired by Appointed Director Tim Gibson with the other members being Murray King, Alison Watters and Matt Ross. All current members of the Committee are considered to be independent. Management only attends Committee meetings at the invitation of the Committee.

The Committee meets at least four times a year and met four times in 2020/21.

Disclosure Committee

A Sub-Committee of the Board, the Disclosure Committee assists the Board and Company in ensuring that all material information is identified, reported for review by the Committee, and if required, disclosed in a timely manner to the NZX. It operates under a written charter, which is available on the LIC website. The Committee is chaired by Board Chair Murray King with the other members being Appointed Director Sophie Haslem, the Chief Executive, Chief Financial Officer, Company Secretary/General Counsel and Senior Communications Advisor. Disclosure Committee meetings are also attended by key senior managers as required.

The Committee meets as and when required and met four times in 2020/21.

Corporate Governance Report

Board Committee attendance:

The number of meetings shown below is the number that a Director is expected to attend as a member of the relevant Committee

	Audit, Finance & Risk Committee		Remuneration & Appointments Committee		Disclosure Committee	
	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended
Gray Baldwin	6	6				
Ben Dickie	6	6				
Tim Gibson			4	4		
Ken Hames *	5	5				
Sophie Haslem	6	6			4	4
David Jensen*	1	1	1	1		
Murray King	6	6	4	4	4	4
Candace Kinser						
Matt Ross			4	4		
Alison Watters			4	4		

*Number of Audit, Finance and Risk Committee meetings held and attended prior to David Jensen's retirement from the Board in October 2020 and Ken Hames' appointment to the Committee in October 2020.

Technology Advisory Board

In addition to the above Committees, Appointed Director Candace Kinser chaired five meetings of LIC's Technology Advisory Board during 2020/21. Three senior external technology experts with leading technology management and strategy experience are members of the Technology Advisory Board which was established by the Board to provide guidance and advice to senior management and the Board on LIC's technology direction and strategy.

Governance and Representation Review Working Group

A Working Group, with equal representation from the Board and the Shareholder Council, was charged by the Board with progressing the review of LIC's governance and representation structures. The Working Group met twice in 2020/21 to finalise the proposal that was put to Shareholders to change the co-op's governance and representation structure. At the heart of the proposal was how LIC could enhance shareholder engagement and introduce a structure that was more efficient, effective, and fit for purpose. Shareholders gave their approval of the proposed changes at the 2020 Annual Meeting. The members of the Working Group were Directors Ben Dickie (Chair), Murray King and Matt Ross and former Shareholder Councillors Nathan Keoghan, Mark Meyer, and Bruce Murphy.

Takeovers

Due to LIC's Co-operative Company status and Constitution based shareholding restrictions, it is not necessary to have takeover protocols in place. Under LIC's Constitution no person shall hold a relevant interest of more than 5% of the total number of ordinary shares in the Company.

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NZX Code Principle 4, Reporting and disclosure: The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Financial reporting

The Board is responsible overall for ensuring the integrity of the Company's reporting to Shareholders, including financial statements that comply with generally accepted accounting practice (NZ GAAP).

The Board's Audit, Finance & Risk Committee oversees the quality, reliability and accuracy of the financial statements and related documents and its role is more fully described in its Charter which is available on the LIC website. In undertaking its role, the Committee makes enquiries of Management and the external auditors, including requiring Management representations, so that the Directors can be satisfied as to the validity and accuracy of all aspects of LIC's financial reporting.

Non-financial reporting

Sustainability

Following publication of this Annual Report, later in 2021 LIC will publish a standalone sustainability report for the first time. This report is being prepared in accordance with the core option of the Global Reporting Initiative (GRI) Standards. This is in line with our commitments under our memberships of the Climate Leaders Coalition and the Sustainable Business Council and will be the start of LIC's journey towards more integrated reporting.

Diversity and Inclusion

The Company fosters an inclusive working environment that promotes employment equity and workforce diversity at all levels, including within the Senior Leadership Team and the Board. The Diversity and Inclusion Policy is available on LIC's website.

The year-end gender composition of the Board and the Senior Leadership Team were:

	2021		2020	
	Male	Female	Male	Female
LIC Board	6	3	7	3
LIC Senior Leadership Team	6	2	7	2

A Diversity and Inclusion Committee has been established with agreed Terms of Reference. The objectives of the Committee are to:

- foster a shared vision of embracing diversity across all areas of LIC
- assist in building a welcoming, inclusive and safe environment that enables LIC to attract and retain the best employees
- assist in increasing the diversity of the LIC workforce and leadership team to better reflect the diversity of the community in which LIC operates
- build a culture that enables all employees to reach their full potential and create a true sense of inclusive collegiality.

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Committee members, as well as others within LIC, have undertaken training on “creating an inclusive work environment” with further training planned for the coming year.

LIC has collected baseline data from its employees in relation to age, gender and ethnicity. This information has highlighted that LIC is a reasonably diverse company with a number of staff from different ethnicities as well as a larger percentage of females than males. This survey, carried out in 2019, is to be conducted again in 2021 with additional and more specific data to be collected around cultural diversity. The aim is to continually update our baseline data so that targeted initiatives can be completed.

The Board has also approved the following:

- All external advertising for positions at LIC are worded to encourage a diverse range of applicants and state LIC’s desire to drive for diversity and inclusion within our workplace;
- Any management appointment interviews are conducted by a panel that represents diversity of thought;
- Training for all employees on the benefits of diversity and inclusion; and
- Training developed and implemented for all employees to drive an understanding of unconscious bias.

In addition to the above, LIC is looking at employment practices, including protection of vulnerable persons, regional presence and youth employment.

Non-financial risks

LIC's assessment of exposure to non-financial risks, including economic, environmental and health and safety risks, is included in LIC's risk assessment process described under Principle 6.

Disclosure to the market

LIC has a written disclosure policy: the Continuous Disclosure Policy can be found on our website. It sets out requirements for full and timely disclosure to the market of material information, so that all stakeholders have equal access to information. The Board's Disclosure Committee reviews and approves disclosure of material information. The Board also specifically consider with Management at each board meeting whether there are any issues which might require disclosure to the market under the NZX continuous disclosure requirements.

Corporate Governance Report

NZX Code Principle 5, Remuneration: The remuneration of directors and executives should be transparent, fair and reasonable.

Directors Remuneration

The total remuneration for LIC's Directors is approved by Shareholders at the Annual Meeting and the current pool of \$669,600 was approved at the meeting held in October 2019.

Directors of the Company received the following remuneration for the twelve months ending 31 May 2021:

In thousands of New Zealand dollars

	Fees
M King	124
G Baldwin	54
B Dickie	54
T Gibson	67
S Haslem	72
K Hames	54
D Jensen*	20
C Kinser	67
M Ross	54
A Watters	54
	620

**For the period 1 June 2020 to 14 October 2020*

Directors of subsidiaries of the Company received the following remuneration for the twelve months ending 31 May 2021:

In thousands of New Zealand dollars

	Fees
E Ruiz	10
	10

Except as set out above, no other Directors of subsidiaries received any remuneration or other benefits in their role as a Director of that subsidiary. The remuneration of employees that receive more than \$100,000 as a result of employee remuneration (and other benefits) is included in the Employees' Remuneration table on page 34.

Under LIC's constitution, LIC has an Honoraria Committee, comprised of up to four elected Shareholders, that is responsible for considering and recommending to Shareholders, the form and amount of Director remuneration. LIC also has a Remuneration Policy for all employees, which is available to employees on LIC's intranet.

Chief Executive Remuneration

The Chief Executive's remuneration package is made up of a combination of base salary, vehicle and a short term incentive based on performance objectives set by the Board. His performance is assessed on a range of targets including:

Corporate Governance Report

- health and safety
- overall financial performance
- organisational health
- stakeholder engagement (including customer service response times being met or exceeded)
- sustainability
- delivery of key projects

Employee Remuneration

LIC aims to have a remuneration framework and policies to attract and retain talented and motivated people. The Company wants to:

1. Be recognised as a great place to work;
2. Recognise and reward successes, while encouraging teamwork and a high performance culture;
3. Be fair and consistent;
4. Be true to our values of integrity, innovation, spirit of co-operation, in tune and passion.

We use market data to determine fair remuneration levels for all staff. Short term incentives apply to executive and certain Management roles for achievement of specific objectives and in relation to achievement of project initiatives. During the period 1 June 2020 to 31 May 2021 the following numbers of employees (not being Directors) received total remuneration, including benefits, of at least \$100,000:

Remuneration Range (Gross)	Current Employees	Exited Employees	Total
100,000 - 109,999	46	1	47
110,000 - 119,999	32	3	35
120,000 - 129,999	35	-	35
130,000 - 139,999	26	1	27
140,000 - 149,999	5	-	5
150,000 - 159,999	7	1	8
160,000 - 169,999	5	-	5
170,000 - 179,999	8	-	8
180,000 - 189,999	8	-	8
190,000 - 199,999	4	1	5
200,000 - 209,999	2	-	2
210,000 - 219,999	7	-	7
220,000 - 229,999	4	-	4
230,000 - 239,999	3	-	3
240,000 - 249,999	1	1	2
250,000 - 259,999	-	1	1
280,000 - 289,999	1	-	1
300,000 - 309,999	1	-	1
310,000 - 319,999	1	-	1
390,000 - 399,999	1	-	1
430,000 - 439,999	1	-	1
500,000 - 509,999	2	-	2
1,010,000 - 1,019,999	1	-	1
	201	9	210

Corporate Governance Report


NZX Code Principle 6, Risk Management: Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.










Managing Risk

LIC has a risk management framework in place to identify, oversee, manage and control risk. A refresh of LIC's risk management framework in 2020 fostered improved ownership of risk identification and management across all levels of the business. Key risk indicators were introduced and provide management with a heat map of any risks requiring increased focus. LIC's risks status is reported to the Audit, Finance & Risk Committee on a regular basis with each risk category and its associated risk causes and mitigations reviewed periodically by the Committee.

LIC's risk categories include:

LIC's Risk Categories



 <p>Biosecurity & Animal Health</p> <p>A biosecurity or animal health event impacts LIC's livestock or its ability to provide products or services to its customers.</p>	 <p>Brand Damage</p> <p>Continued short-term reputational damage results in damage to LIC's brand.</p>	 <p>Market Disruption</p> <p>The inability to commercialise innovations or respond quickly to market disruption or emerging technologies causes reduced use by Shareholders of existing products or services with a resultant reduction in revenue.</p>	 <p>Compliance</p> <p>Breaches of laws, regulations, licences, standards, NZX continuous disclosure requirements, or OMARs result in restrictions, penalties, or loss.</p>	 <p>Disruption to Production or Service</p> <p>Any disruption caused by processes, people, equipment, systems, software availability or external events which affects LIC's ability to deliver quality semen or other products and services to its customers.</p>
 <p>Economic Conditions on Farm</p> <p>LIC's revenue may be reduced as farmers decrease expenditure as a consequence of reduced returns, availability of cash or an increased cost of production resulting from milk price, exchange rates, government regulation, or political stability.</p>	 <p>Financial Risk</p> <p>Failure to manage LIC's debts and financial leverage or to identify fraud, internal errors or money owed results in LIC being unable to cover operational costs and or pay back its debts.</p>	 <p>Health & Safety</p> <p>The potential for injury or loss of life for employees, contractors or visitors engaged in LIC business activities or on LIC sites or prosecution of the PCBU.</p>	 <p>People & Capability</p> <p>Availability, capability and engagement of our people and key vendors to effectively execute LIC's strategic plan.</p>	 <p>Strategic risk</p> <p>An inability to deliver LIC's agreed strategy due to disruption, planning, risk, resourcing or other barriers not identified or managed.</p>

Of particular interest to shareholders and stakeholders are the following updates on LIC's key risk categories:

Health and safety

The health and safety of people, our staff, customers, contractors and anyone we come in contact with, is of utmost importance to LIC and remains our highest priority, regardless of the country they are based in, or which site they are based at. Due to the diverse nature of our business, LIC has a wide variety of health and safety risks, including: working with hazardous substances, driving, on farm activities (large animals, machinery and regular presence on customer farms) lone working and

Corporate Governance Report

manual handling. The Senior Leadership Team is responsible for reviewing, monitoring and mitigating LIC's health and safety risk. The Board ensures that the systems used to identify and manage health and safety risks are fit for purpose, are being effectively implemented, regularly reviewed and improved. Regular reporting to Management and the Board supports the provision of assurance that LIC's health and safety framework is operating effectively. The Board continues to maintain visibility and focus on health and safety with their commitment to health and safety walk-arounds. Business units have health and safety representatives and there is a regular formal governance forum chaired by LIC's CE.

LIC uses a Total Reportable Incident Rate (TRIR) to measure health and safety performance against lag indicators: notifiable events, lost time injuries, medical treatment claims and traffic infringements. The rate is based on the number of incidents per 100 full-time equivalent employees. The TRIR for 2020/21 was 3.49, a decrease from 4.5 in 2019/20.

There was one event notified to Worksafe in 2020/21 (compared to none in 2019/20).

The Company's ongoing focus is to be more proactive - to take personal ownership, learn from our safety events and anticipate future safety risks and needs. LIC's 2020/21 health and safety strategy included five focus areas: leadership development, working together, critical risks management, measuring performance and supporting workers.

We also focused on enhancing near miss reporting and the wellbeing of our people through the introduction of the five ways to wellbeing programme, which centres on connecting, being active, learning, giving, and taking notice. A mental health for managers training module is being rolled out in 2021/22.

LIC's continued focus on health and safety has seen LIC retain its secondary level status following the annual ACC audit.

Disruption to production or service

The Company's ability to provide sufficient quality semen during a season relies on a number of factors, including the maintenance and operation of key equipment, staff training and adherence to approved procedures and processes. An inability to meet demand for the Company's semen would result in significant reputational damage as well as a reduction in New Zealand revenue. Standard operating procedures are well documented and regularly reviewed. Semen quality is monitored daily and non-return rates are monitored weekly during the peak of the season.

Reliance on technology, IT systems and services increases the impact of system outages and data loss should a significant adverse technology event occur. LIC's toolsets and the visibility across the technology environment has been significantly enhanced in the last two years improving the ability to detect potential threats. Business continuity and disaster recovery plans are in place and reviewed regularly and all backups have been reviewed to ensure LIC can recover from a significant event.

Economic conditions on farm

The Company's revenue may be reduced as farmers decrease expenditure as a consequence of reduced returns, availability of cash or an increased cost of production. Reductions in New Zealand's milk price will affect returns paid to farmers: as a net exporter of milk, New Zealand's milk price is heavily influenced by reference to the price set by the Global Dairy Trade (GDT). Rural lenders approach to their lending portfolio may result in a tightening in policy and in turn less cash on farm. As a result, farmers may look to reduce both their capital spend as well as farm working expenses,

Corporate Governance Report

including herd improvement. Increased compliance costs on farm may increase production costs, with farmers seeking to reduce costs elsewhere.

The Board and Management continue to explore growth opportunities and ways to improve efficiency within LIC and for dairy farmers through innovative products and solutions. There is also a continued focus on genomic evaluation, appropriate selection principles and careful monitoring of the elite portion of the national herd to ensure LIC's breeding scheme continues to deliver superior dairy genetics to assist farmers in improving productivity.

Financial Risk

LIC has stringent processes in place to ensure budgets, forecasts and financial reporting are accurate and timely. LIC maintains strict internal controls to manage delegated authority and remove the opportunity for fraudulent activity. LIC also has a well-documented and verified accounts payable and receivable process which has been independently verified.

Bio-security and animal health

Quarantine procedures are in place in all LIC-controlled locations with heightened controls on LIC's bull farms to reduce the risk of the transmission of *Mycoplasma bovis* (M.bovis). Animals are maintained at separate locations and bulls are regularly inspected and undergo health testing. Business continuity plans are in place with regular reviews and scenario testing. LIC has veterinary and epidemiological expertise within the Company.

The purchase of an additional quarantine block has further reduced the M.bovis risk to LIC's production bulls held on LIC's main Newstead centre.

Market disruption

The inability to commercialise innovations and/or respond quickly to market disruption or emerging technologies could cause reduced use by Shareholders of existing products and services with a resultant reduction in revenue. LIC has adopted agile product development methodologies to enable quicker commercialisation of new and improved products and services and the Board prioritises capital spend to ensure developments align with farmer needs.

Compliance

Breaches of laws, regulations, licences, standards, NZX continuous disclosure requirements, or market access requirements, could result in restrictions, penalties, or loss. LIC uses the New Zealand legal compliance software tool ComplyWith to ensure clarity of obligations across the organisation and for tracking adherence to compliance requirements.

Strategic risk

Disruption, planning, risk, resourcing or other barriers not identified or managed could lead to an inability to deliver on LIC's strategy, as too would the lack of availability, capability and engagement of our people and key vendors.

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The environment

Environmental risks are covered in one or more of LIC's key risk areas.

LIC is a member of the Climate Leaders Coalition and the Sustainable Business Council. LIC now measures and publicly reports our greenhouse gas emissions, and has set a public, science based, emissions reduction target, and is working with our suppliers to reduce their emissions as well as building sustainability into our purchasing decisions. LIC continues to offer farmers the tools and genetics they need to breed more efficient cows and drive sustainability improvements on-farm. Our Resilient Dairy programme is a great example of this.

NZX Code Principle 7, Auditors: The Board should ensure the quality and independence of the external audit process.

External Audit

LIC has an External Auditor Independence Policy that requires the external auditor to be independent and to be seen as independent. The Board is satisfied that there is no relationship between the Auditor and LIC or any related person at this time, which could compromise the Auditor's independence. The Board also obtains confirmation of independence formally from the Auditor.

To ensure full and frank discussion between the Audit, Finance & Risk Committee and the auditors, the auditor's senior representatives meet separately with the Committee.

The External Auditor Independence Policy sets out restrictions on non-audit work that can be performed by the auditor and the Audit, Finance & Risk Committee is required to approve all engagements with the auditor. The policy requires rotation of the key audit partner every five years a requirement we are fully compliant with. LIC's external auditor attends its annual shareholder meeting each year to answer questions from shareholders in relation to the audit.

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Internal Audit

LIC does not have a separate internal audit function. The Risk & Assurance Team performs, reviews and arranges for external audit resource to perform internal audits as agreed with the Audit, Finance & Risk Committee. The Risk & Assurance Manager reports to each Audit, Finance & Risk Committee meeting on audit or review issues and incidents, improvements and changes to internal controls.

NZX Code Principle 8, Shareholder rights and relations: The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

The Board recognises that as its shareholders are the Company's owners, customers and stakeholders, it is responsible for overseeing shareholder engagement. Shareholder engagement reflects LIC's co-operative ownership structure and values and aims to be efficient, effective, fit for purpose and meet shareholder expectations with regard to increased transparency about LIC's activities.

The LIC website is the key place for LIC's financial and operational information including the Company's presentations, reports, announcements and media releases. The website is updated immediately when any announcement is made to the NZX. Important corporate governance documents such as the Charters and policies referred to in this section of the Annual Report can also be found on the LIC website and the Annual Report is available in both electronic and hard copy formats.

LIC provides half-year and annual reporting to the NZX to keep Shareholders informed, and discloses information to the NZX to meet its continuous disclosure obligations as required. The Company communicates with Shareholders through its Annual Report, half-year financial statements and at Shareholder meetings, as well as through a range of media channels on topics which it believes will be of interest to Shareholders. We encourage all Shareholders to receive communications electronically, and provide hard copies of information as and when required.

All Shareholders have the right to vote on major decisions which may change the nature of the Company and the Board encourages all Shareholders to attend and participate in shareholder meetings.

This year the LIC Annual Meeting will be held on 14 October 2021 in Hamilton. LIC welcomes Shareholders' attendance either on-line or in person. A Notice of Meeting will be sent to Shareholders in September 2021.

Corporate Governance Report

STATUTORY REQUIREMENTS

ENTRIES IN THE INTERESTS REGISTER

DIRECTORS

All Elected Directors 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

Gray Walter Baldwin:

Director of:

Farmlands Co-operative Society Limited
Trinity Lands Limited
Longview Trust Board
Wuppertal Farming Limited

Benjamin John Dickie:

Director of:

Taranaki Veterinary Centre Limited

Timothy Dunlop Gibson:

Director of:

The Equanut Company Limited (Chair)
Manage My Health Global Limited
Miraka Limited and subsidiaries:
 Miraka Brands Limited
 Miraka Holdings Limited
Port Otago Limited and subsidiaries:
 Chalmers Properties Limited
 Fiordland Pilot Services Limited
 Te Rapa Gateway Limited
Silver Fern Farms Co-Operative Limited
Silver Fern Farms Limited and subsidiaries:
 Silver Fern Farms Joint Ventures Limited
 Silver Fern Farms Holdings Limited
Skills Consulting Group Limited
Tuhana Consulting Limited

Kenneth Charles Hames:

Director and shareholder of:

Ahipara Agri Limited

Chair of:

Auckland Ballance Farm Environment Awards (Ceased April 2020)
Extension 350
Duke of Edinburgh Award NZ.

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Sophie Haslem:

Director of:

Akina Foundation (Ceased November 2020)

Centreport Ltd and subsidiaries:

Centreport Captive Insurance Limited

Centreport Property Management Limited (removed from the Company Register 15 January 2021)

Centreport Properties Limited

Harbour Quays Property Limited (removed from the Company Register 15 January 2021)

Kordia Group Ltd

Meteorological Service of New Zealand Ltd (Chair)

Oyster Property Group Ltd and subsidiaries:

Oyster Management Limited

Oyster Property Holdings Limited

Oyster Industrial Limited

Tauranga Crossing GP Limited

Rangitira Ltd

Shareholder of:

CH4 Global Inc

Murray Grant King:

Director of:

Appleby Limited

Callura Dairies Management Limited (Chair)

Cawthron Institute

Dry Steam Irrigation Company Limited

Long Plantation Investments Limited

Director and Shareholder of:

New Zealand Dairy Dessert Company Limited

Waimea Irrigators Limited

Waimea Community Dam Limited

Candace Nicole Kinser:

Director of:

Auckland Unlimited, previously Regional Facilities Auckland Limited (Ceased 9 September 2020)

Cancer Society of New Zealand Incorporated

Eastland Group Limited and subsidiaries:

Eastland Network Limited

Gisborne Airport Limited

EROAD Limited (Ceased 24 July 2020)

EROAD LTI Trustee Limited (Ceased 24 July 2020)

NZ Health Partnerships Limited

Ultrafast Fibre Limited (Ceased 30 September 2020)

UFF Holdings Limited (Ceased 30 September 2020)

WEL Networks Limited

Chair of:

Cancer Society of New Zealand, Auckland Northland Division Incorporated

Investment Committee Member of:

Return on Science Investment Scheme at the University of Auckland.

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Matthew Fraser Ross:

Director of:

North Otago Irrigation Company Ltd (Chair)
Waitaki Irrigators Collective Limited (Ceased 19 April 2021)

Director and Shareholder of:

Bortons Agri Ltd.

Alison Jane Watters:

Director of:

Agriculture Resources Limited
AsureQuality Limited (Chair)
BV-AQ (Singapore) Holding Pte Limited
High-Value Nutrition (National Science Challenge)
Totally Vets Limited

Shareholder of:

AgInvest Holdings Limited (27.66%) AgInvest owns MyFarm Limited

SENIOR STAFF

In addition to the directorships of LIC subsidiaries as detailed below, senior members of staff have recorded the following interests:

David James Hazlehurst

Director of:

Agrigate GP Limited
Figured Limited

Simon Wayne McNee

Director of:

Agrigate GP Limited

Advisory Board Member of:

Sustainable Business Council

Shareholder of:

LIC, by way of membership of the LIC Employee Share Scheme

Simon David O'Connor

Director of:

Eurogene AI Services (Ireland) Ltd

Shareholder of:

Canterbury Grasslands Limited (and member of its Audit Committee)
Rimu S.A. (carries out farming operations in Chile through Manuka Limited)

Corporate Governance Report

The Directors of the Company's subsidiaries as at 31 May 2021 are set out below:

- LIC Agritechnology Company Limited: Murray King, Gray Baldwin, Ben Dickie, Tim Gibson, Ken Hames, Sophie Haslem, Candace Kinser, Matt Ross and Alison Watters
- Livestock Improvement (New Zealand) Corporation Limited: David Hazlehurst, Murray King and Wayne McNee
- LIC Deer Limited: Wayne McNee (removed from the Company Register on 16 September 2020)
- LIC Automation Limited: David Hazlehurst and Wayne McNee
- LIC Ventures No.3 Limited: David Hazlehurst and Wayne McNee
- Livestock Improvement Pty Limited: Simon O'Connor and Michael Rose
- Farmkeeper Pty Limited: Simon O'Connor and Michael Rose
- Overland Corner Holdings Pty Limited: Simon O'Connor and Michael Rose
- Beacon Automation Pty Limited: Simon O'Connor, David Hazlehurst and Michael Rose
- Livestock Improvement Corporation (UK) Limited: David Hazlehurst, Wayne McNee and Mark Ryder
- LIC Ireland Limited: David Hazlehurst, Wayne McNee and Mark Ryder
- Livestock Improvement Automation Limited: David Hazlehurst, Wayne McNee and Mark Ryder
- LIC Automation UK Limited: David Hazlehurst and Wayne McNee

The winding up of the Company's subsidiary in Brazil, NZ Brasil Producao Animal Ltda, has commenced and as part of the process, directors David Hazlehurst and Simon O'Connor resigned from the Board on 1 May 2021. In accordance with local legal requirements, the subsidiary is being run by an in country Administrator, currently Rodrigo Cauduro.

During 2020/21 the directors named below resigned from the boards of the Company's subsidiaries as follows:

- Geoffrey Corbett: resigned from LIC Deer Limited, Livestock Improvement Pty Limited, Farmkeeper Pty Limited, Overland Corner Holdings Pty Limited, Beacon Automation Pty Limited and LIC Automation UK Limited
- Jock Roberts: resigned from Beacon Automation Pty Limited.
- David Jensen: resigned from LIC Agritechnology Company Limited.
- David Hazlehurst and Simon O'Connor: resigned from NZ Brasil Producao Animal Ltda

Corporate Governance Report

ENTRIES IN THE INTEREST REGISTER

- a) Participation in the Company's Contract Mating Scheme could lead to the potential sale of bull calves to LIC in the 2021/2022 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
Matt Ross	17	\$238,000

- b) Share Dealings by Directors

As at 31 May 2021 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, or control the exercise of the right to vote or the acquisition or disposal of, the following shares:

	31 May 2021	31 May 2020
Director	Ordinary Shares	Ordinary Shares
Gray Baldwin	14,276	14,276
Ben Dickie*	23,922	10,360
Ken Hames	3,204	3,204
Murray King	136,704**	135,040
Matt Ross	93,744	93,076
Alison Watters	33,576***	42,732

* Includes shares from participation in the Voluntary Investment Scheme by B Dickie

** Includes 20,000 Ordinary Shares held by Callura Dairies Management Limited, of which M King is Chair

*** This total does not include 9,600 shares held by Te Pahau Management Limited, which is no longer considered to be a relevant farming interest of A Watters

Ordinary Shares include fully paid shares which are quoted on the NZX and Nil Paid Shares, which must be paid up over time by Shareholders.

- c) Loans to Directors of the Parent and Subsidiaries

There have been no loans during the year.

- d) Directors Indemnity and Insurance

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

- 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.

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RESOLUTION OF DIRECTORS DATED 21 JULY 2021 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 2021.

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.

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Spread of Shareholders as at 31 May 2021 (including treasury stock and nil paid shares)

Size of Shareholding	Number of Shareholders*	Shares Held	% of Total
1 - 999	731	452,109	0.31%
1,000 - 1,999	1,000	1,521,182	1.03%
2,000 - 2,999	847	2,085,544	1.41%
3,000 - 3,999	652	2,223,195	1.51%
4,000 - 4,999	682	3,010,770	2.04%
5,000 - 5,999	483	2,662,517	1.80%
6,000 - 6,999	407	2,641,628	1.79%
7,000 - 7,999	330	2,461,077	1.67%
8,000 - 8,999	369	3,123,836	2.12%
9,000 - 9,999	293	2,787,207	1.89%
10,000 - 14,999	1,078	13,242,603	8.97%
15,000 - 19,999	751	13,055,305	8.84%
20,000 - 24,999	450	10,064,195	6.81%
25,000 - 29,999	333	9,057,655	6.13%
30,000 - 34,999	224	7,245,060	4.91%
35,000 - 39,999	173	6,438,863	4.36%
40,000 - 49,999	217	9,690,620	6.56%
50,000 - 99,999	280	18,478,198	12.51%
100,000 - 199,999	55	7,397,073	5.01%
200,000 - 299,999	14	3,387,214	2.29%
300,000 - 499,999	8	3,224,060	2.18%
500,000 - 999,999	6	4,402,001	2.98%
1,000,000 +	8	19,030,508	12.89%
	9,391	147,682,420	100%

* The number of shareholders above is based on the number of separate/individual farms. The table below in relation to the twenty largest shareholdings, amalgamates shareholders with multiple farms.

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Twenty Largest Shareholdings as at 31 May 2021 (including treasury stock and nil paid shares)

Shareholder	Shares held	% of total shares
Trinity Lands Limited	7,348,913	4.98%
LIC Treasury Stock	5,337,584	3.61%
Schmidt Farms Limited	2,385,898	1.62%
Melrose Dairy Limited	1,500,087	1.02%
Anglesea Agriculture Limited	1,418,903	0.96%
Sim Brothers Limited	1,101,207	0.75%
Kotare Pastoral Limited	978,858	0.66%
CIP Nominees No 1 Limited (LIC's Employee Share Scheme)	881,133	0.60%
David Lockhart Easton & Anthea Clare Easton	746,221	0.51%
Christopher John Stark & Graham Garr	718,372	0.49%
Mark Braden Neil Dewdney, Anne Heather Dewdney & Victoria Ann Dewdney	687,404	0.47%
D B Douglas Limited	615,756	0.42%
Robert Laurentius Johannes Bruin & Annmarie Bruin	601,913	0.41%
Landcorp Farming Ltd	594,540	0.40%
Farnley Tyas (2018) Limited	451,944	0.31%
Malrose Properties Limited	439,376	0.30%
Kodie Farms Limited	428,436	0.29%
Laird Farm Limited	427,772	0.29%
Mangatarata Farms Limited	423,252	0.29%
Bishop Farms Oxford Limited	410,123	0.28%
	27,497,692	18.62%

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Credit Rating Status

LIC currently does not have a credit rating.

Substantial product holders

Based on the Company records and substantial product holder notices provided, as at 31 May 2021, the following parties were substantial product holders of the Company:

Substantial product holders	Number of quoted fully paid ordinary shares in substantial holding at 31 May 2021	Percentage of quoted fully paid ordinary shares in substantial holding at 31 May 2021
Trinity Lands Ltd	7,310,899	5.7535%
Peter James McBride	7,314,441	5.7563%

The total number of quoted fully paid ordinary shares in the Company was 127,068,234 as at 31 May 2021.

LIC understands that Peter James McBride's above substantial product holder disclosure is in relation to financial products held by Trinity Lands Limited (7,310,899 fully paid ordinary shares), which is also disclosed above, and Crocodile Farm Limited (3,542 fully paid ordinary shares). Peter James McBride's substantial product holding arises because he has the power to exercise, or to control the exercise of, a right to vote attached to the financial products held by Trinity Lands Ltd and Crocodile Farm Limited and has the power to acquire or dispose of, or to control the acquisition or disposal of, the same financial products held by Trinity Lands Ltd and Crocodile Farm Limited.

LIC notes that the substantial product holders' original notices to the market were provided on 19 September 2019. Shareholders are advised that the change in the substantial holdings has not been 1% or more subsequent movement (relative to the number of quoted fully paid ordinary shares on issue), which would otherwise require a disclosure to the market pursuant to s277 of the Financial Markets Conduct Act 2013. We have set out below, for completeness, the disclosures made at the date of the original notice (which are also available on nzx.com under LIC's announcements).

Substantial product holders	Number of quoted fully paid ordinary shares in substantial holding at date of notice	Percentage of quoted fully paid ordinary shares held at date of notice	Date of notice
Trinity Lands Ltd	7,328,983	5.943%	19/09/19
Peter James McBride	7,329,577	5.943%	19/09/19

Donations

The Company made donations totalling \$14,048 during the year ended 31 May 2021 (2020: \$12,123). No political contributions are made by the Company.

Non-Standard Listing

Livestock Improvement Corporation Limited has been classified as a Non-Standard NZX Issuer by the NZX, pursuant to NZX Listing Rule 1.18, by reason of it being a Co-operative Company having a Constitution which includes provisions having the following effect:

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The acquiring of Ordinary Shares is restricted to New Zealand dairy farmers who derive an income from the farming of dairy cows in New Zealand, whose milk is supplied to a New Zealand milk processor and who purchase qualifying products and services from Livestock Improvement Corporation Limited.

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

On 1 October 2020, NZX Regulation (NZXR) granted waivers, rulings and approvals in respect of the following NZX Listing Rules:

- 1 A Ruling that treats the “Shareholding Requirement” as defined in LIC’s Constitution as the “Minimum Holding” requirement for LIC for the purposes of the Listing Rules.
- 2 A Ruling to the extent that the definition of “Renounceable” refers to a Right or an offer of securities by LIC that is transferrable to any person entitled to hold those securities under the Constitution. This reflects the ownership restrictions on shares, resulting from the co-operative nature of LIC.
- 3 A waiver in respect of Rules 2.3.1 and 2.3.2, to allow for the following aspects of the Company’s corporate governance structure:
 - a) Director nominations for Elected Directors by Ordinary Shareholders to be restricted by region, as set out in clause 22.4(b) of the Constitution and qualification, as set out in Schedule 3 of the Constitution;
 - b) the nomination procedures for Appointed and Elected Directors (including casually appointed directors) as set out in Schedule 3 of the Constitution;
- 4 A waiver in respect of Rule 3.13.1 to allow LIC to release to the NZX details of the Nil Paid Shares that have been converted into Fully Paid Shares on a monthly basis, in the form as required under Rule 3.13.1, on the first business day of each month, aggregating the number of Nil Paid Shares that have been paid up (if any) in the preceding month.
- 5 A waiver in respect of Rule 6.2.4 to allow Nil Paid Ordinary Shares to carry full voting rights. Without this waiver, the Nil Paid Shares could only carry voting rights in proportion to which the Share is paid up.
- 6 A waiver in respect of Rule 6.6.1 to allow the lien provision in clause 18 in the Constitution to be read in place of this Rule.
- 7 An approval under Rule 8.1.6(b) to include the following restrictions in the Constitution:
 - a) LIC is restricted in relation to the voting securities that may be issued, as set out in clause 3.2(b) of the Constitution, thereby maintaining its co-operative structure;
 - b) ordinary shares in LIC may only be held by or transferred to certain persons, as set out in clause 3.2(c) of the Constitution;
 - c) ordinary shares in LIC shall not be held or acquired for the benefit of any person who is not a User, unless an exception is provided, as set out in clause 3.2(d) of the Constitution;
 - d) no person shall hold a relevant interest in more than 5% of the total number of ordinary shares in LIC on issue, as set out in clause 6.3(a) of the Constitution;
 - e) LIC may require Users who have spent in excess of the Minimum Purchase Amount to compulsorily acquire sufficient ordinary shares to meet the Shareholding Requirement, as set out in clause 7.1 of the Constitution;

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- f) LIC may require Users who no longer spend the Minimum Purchase Amount to compulsorily dispose of their ordinary shares, as set out in clause 7.2 of the Constitution; and
- g) While the Dairy Industry Restructuring Act 2001 restricts voting rights in LIC, no person can exercise, or control the exercise of, more than 1% of the maximum number of votes exercisable at any meeting of LIC, as outlined at clause 20.4 of the Constitution.

On 31 August 2020, NZXR granted a waiver from Rule 2.7.1 to allow LIC's Elected Directors' terms of tenure to be extended as set out in the transitional arrangements in the 2020 LIC Notice of Annual Meeting. The waiver is required to streamline the implementation of the governance changes as approved by shareholders at the 2020 LIC Annual Meeting.

On 30 August 2019, NZXR granted a waiver from Rule 4.15.1 to allow LIC to provide financial assistance to an Approved Holding Entity, for the purposes of, or in connection with, the acquisition of Equity Securities issued, or to be issued, under the Voluntary Investment Scheme.

DISCLOSURE OF FINANCIAL ASSISTANCE AS REQUIRED UNDER THE COMPANIES ACT 1993

A. **Dividend Reinvestment Plan:** LIC proposes to provide 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 Ordinary Shares on the NZX 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 \$15,000.

In relation to the financial assistance provided for the Dividend Plan, the LIC Board resolved on 21 July 2021 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 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) The additional Shares will be acquired by Craigs through on-market transactions, by the transfer of LIC shares held as treasury stock and/or subscribing for new shares (on behalf of the Shareholder).
- d) Participating Shareholders will pay no greater than the higher of:

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- i. the volume-weighted average price of shares trading on the NZX market during the 20 Business Days prior to the date that the Board determines to issue shares from treasury stock; and
 - ii. the average price paid by Craigs on behalf of Participants for on-market acquisitions.
- e) The Dividend Plan will enhance the liquidity in the market for the Shares, providing a more liquid market for both participating and non-participating Shareholders wishing to trade in LIC Shares;
- f) The Dividend Plan enables LIC to offer Shareholders a mechanism to reinvest dividends in Shares without resulting in unnecessary new capital being raised through the issue of new shares; and
- g) The amount of Dividend Plan 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 eligible Shareholders who elect to participate in the Voluntary Investment Scheme ("Investment Scheme") 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 Investment Scheme. Craigs has been appointed as the Broker to purchase Ordinary Shares on the NZX market for the purposes of the Investment Scheme, 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 costs depends upon the extent to which eligible Shareholders participate in the Investment Scheme. However, the total costs in the next twelve months is estimated to be in the region of \$12,000.

In relation to the financial assistance provided for the Investment Scheme, the LIC Board resolved on 21 July 2021 that LIC should provide the financial assistance referred to above ("VIS Assistance"), for the period of 12 months commencing 10 working days after sending this disclosure to Shareholders, and that the giving of the VIS 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 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 eligible shareholders with a means of acquiring additional shares in LIC through a fixed trading plan, given the risk they will often be information insiders, without incurring transaction costs which they would otherwise incur;
- b) The VIS Assistance is a method of aligning of eligible shareholders with the interests of Company by providing a legally compliant way of acquiring LIC shares by individuals who may often be information insiders;
- c) The additional shares will be acquired by Craigs either through on-market transactions or from LIC (whether by way of a share issuance or by the transfer of treasury stock).
- d) Participating Shareholders will, as far as is practicable, pay a uniform price in relation to a season.
- e) The Investment Scheme will enhance the liquidity in the market for the shares, providing a more liquid market for both participating and non-participating Shareholders wishing to trade in LIC shares; and
- f) The Investment Scheme enables LIC to offer eligible shareholders a mechanism to invest in LIC shares without resulting in unnecessary new capital being raised through the issue of new shares.

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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 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 fees will depend on how many employees participate in the Employee Scheme and the level of their contributions. However, it is estimated that the total fees in the next twelve months will be in the region of \$18,000.

In relation to the financial assistance provided for the Employee Scheme, the Board of LIC resolved on 21 July 2021 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 is 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;
- c) Shareholders will not be diluted or otherwise disadvantaged as no new Ordinary Shares are being issued under the Employee Scheme;
- d) The Employee Scheme will enhance the liquidity in the market for the Shares, providing a more liquid market for Shareholders wishing to trade in LIC Shares;
- e) The amount of financial assistance is minimal in comparison to the benefits arising out of the Employee Scheme for Shareholders and LIC.