

# Livestock Improvement Corporation Limited (LIC) **Annual Report**

For the year ended 31 May 2023



There's always room for improvement





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## Directors' Report 2022 -23

### LIC announces strong full-year result, as the co-op's genomics investment continues to deliver for farmers

The LIC Board announces its financial result for the 2022-23 year, fuelled by an increased farmer uptake in premium genetics and herd improvement services to breed highly efficient cows, with a lower emissions footprint.

LIC will return \$23.3 million in dividend to its co-operative shareholders, equating to 16.38 cents per share with a 20.1% gross yield on the share price. The dividend will be paid on 18 August 2023.

Reporting increased revenue (up 5.1%) but a drop in underlying earnings (down 7.6%) compared to the same period last year, the Board believes the co-op has delivered a solid financial performance, considering the challenging economic conditions.

The Board are pleased to present another strong result to our farmer shareholders for the sixth successive year, despite facing rising costs due to increased inflation.

This result is a credit to our farmers for their continued support of their co-op, who like us have been faced with a challenging economic landscape. It enables LIC to deliver a solid dividend to shareholders at a time when increased cost pressures are being felt on-farm and ensures we can continue to invest in critical R&D and technology to support a more profitable and sustainable dairy industry for Kiwi farmers.

#### Summary of financials

- Net Profit After Tax (NPAT): \$27.4 million, up 2.4% from \$26.7 million last year
- Total revenue from continuing operations (excl automation): \$276.5 million, up 5.1% from \$263.2 million last year

- Underlying Earnings: \$23.7 million, down 7.6% from \$25.7 million last year
- Strong balance sheet with no debt at year end: Total assets \$382.3 million, 0.9% decrease from \$385.6 million last year
- Dividend: \$23.3 million - 16.38 cents per share

The result is largely driven by more farmers opting for the co-op's premium bull teams to breed high genetic merit cows which produce more milk and have a lower emissions footprint per kilogram of milksolid.

LIC's premium genetics range accounted for 79% of the co-op's total artificial breeding (AB) inseminations, up from 71% the year prior.

The co-op has seen an increased uptake of our premium genetics where young, genomically-selected bulls are used to fast-track genetic gain; in turn delivering more value on-farm through increased productivity and improved environmental outcomes.

The production efficiency of our national herd has never been more important than it is today. To help our sector meet its environmental goals we need to be breeding highly efficient cows, and this result shows that farmers are continuing to sharpen their focus in this area.

The co-op has invested more than \$80 million into genomics over the last 30 years and research has confirmed that farmers are capitalising on this investment.

Farmers consistently using LIC genetics have almost doubled the rate of genetic gain in their herds over the last 10 years - achieving 18gBW per annum.

## Key Metrics

<p><b>2.4%</b> Net Profit After Tax (NPAT) \$27.4m versus \$26.7m last year</p>	<p><b>5.1%</b> Total revenue from continuing operations (excl automation) \$276.5m versus \$263.2m last year</p>	<p><b>7.6%</b> Underlying Earnings \$23.7m versus \$25.7m last year</p>	<p><b>0.9%</b> Total assets \$382.3m versus \$385.6m last year</p>
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<p><b>Full year dividend</b></p> <p>\$23.3m - 16.38 cents per share vs \$26.2m and 18.43 cents last year</p>	<p><b>Investment &amp; capital spend in business</b></p> <p>\$20.6m, up 15.1% from \$17.9m last year</p>	<p><b>R&amp;D investment</b></p> <p>\$18.6m, up 2.2% from \$18.2m last year (6.7% of revenue)</p>	<p><b>Earnings per share</b></p> <p>19 cents, no change from 19 cents last year</p>
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The increased utilisation of genomics in our breeding programme and farmer uptake of young, genomic bulls has gone hand-in-hand with the higher rates of increased genetic gain we are seeing in farmers' herds. Not only are these farmers breeding more environmentally efficient cows, they are breeding them at a much faster rate.

In other business highlights, DNA testing services and animal health testing increased – showing farmers remain committed to investing in technology to keep their cows healthy, protected, and productive. Of particular note was the increase in Johne's disease testing which reached a milestone of over 1.1 million test samples processed, an increase of 16% from the year prior.

The adoption of technology to support herd improvement and extend the artificial breeding period was also reflected in the result, with more cow wearable devices integrated with the co-op's MINDA herd management software.

Cow wearables are being increasingly used on New Zealand dairy farms to monitor herd performance, health, and fertility, and the Board are pleased to see farmers integrating this technology with their MINDA software to unlock even more value.

Orders for sexed semen saw an increase, as more farmers factor sexed semen into their breeding goals to accelerate the rate of genetic gain on farm. International exports also saw increased demand for sexed semen (up 52%), while overall straws numbers sent offshore decreased due to a challenging supply environment.

Sexed semen continues to be an important tool on farm to enable farmers to generate more heifer replacements from their best-performing animals.

We see this technology as being a central part of the industry's future and we are committed to reducing the variation in conception rates year-on-year. This season the non-return rate for sexed semen was below what we usually expect and several enhancements and changes to our processes have been made. This will continue to be monitored closely through the winter mating period.

During the 2022-23 year, the co-op invested \$18.6 million into research & development, up from \$18.2 million the year prior - retaining its position as one of the largest investors in R&D and new product

development for the agri sector, at 6.7% of revenue.

The co-op's investment into R&D and technology is increasingly important, with the growing environmental challenges the dairy sector is facing.

As a farmer-owned co-op, we know that investment in R&D is key to helping our sector meet its environmental goals and drive positive change when it comes to tackling problems like climate change.

New Zealand farmers are already some of the most efficient milk producers in the world, and our continued investment and focus on innovation is supporting them to retain this title.

A significant share of the co-op's R&D investment contributes to its world-leading methane research programme, alongside CRV, with funding support from the New Zealand Agricultural Greenhouse Gas Research Centre. The programme is investigating the genetic link between methane emissions from bulls and their genetics to ultimately enable farmers to breed low-methane-emitting cows.

The programme, now in its third year, has been working in partnership with Pāmu to breed from bulls identified to be high or low methane emitters. After their daughters are born, their emissions will be measured during their first milking season to ensure they are representative of their fathers.

## Outlook

LIC will continue to be firmly guided by its primary focus of delivering on three commitments to farmer shareholders - operational excellence, faster genetic improvement and software reliability and performance. The co-op's performance against these commitments during the 2022-23 year will be reported on at its Annual Meeting in October.

The co-op expects underlying earnings for 2023-24 to be in the range of \$22-28 million, assuming no significant climate event or milk price change takes place between now and then.

This will be Board Chair Murray King's final full-year result with LIC after announcing he will retire from the Board at the co-op's October Annual Meeting. The Board thanks Murray King for 14 years of service to LIC.

## Key Results and Position

### STATEMENT OF RESULTS FOR THE YEAR For the year ended 31 May 2023

<i>in thousands of New Zealand dollars</i>	Note	2023	2022
<b>Continuing operations</b>			
Revenue	1	276,506	263,182
Purchased materials		(46,585)	(44,561)
People costs		(118,995)	(108,969)
Depreciation and amortisation	3,4,5	(23,116)	(22,749)
Other expenses	10	(56,855)	(53,531)
Net finance costs		157	(277)
Bull team revaluation	2	4,524	(21,674)
Fair value change in Nil Paid Share receivable	6	363	1,202
<b>Profit/(loss) before tax expense from continuing operations</b>		<b>35,999</b>	<b>12,623</b>
Tax expense	9	(8,647)	(2,000)
<b>Profit/(loss) for the year from continuing operations</b>		<b>27,352</b>	<b>10,623</b>
<b>Discontinued operations</b>			
Profit/(loss) after tax expense from discontinued operations	14	-	16,100
<b>Profit/(loss) for the year</b>		<b>27,352</b>	<b>26,723</b>
Hedge revaluations	6	113	124
Foreign currency translation movements	6	(85)	-
Investment revaluations	6	1,711	(5)
Land and buildings revaluations	3,6	1,580	4,756
		<b>3,319</b>	<b>4,875</b>
<b>Comprehensive income for the year</b>		<b>30,671</b>	<b>31,598</b>
<i>Profit from continuing operations per Ordinary Share (excl. treasury stock)</i>		<i>\$0.19</i>	<i>\$0.07</i>
<i>Profit per Ordinary Share (excl. treasury stock)</i>		<i>\$0.19</i>	<i>\$0.19</i>
<b>Supplementary non-GAAP note to the results for the year:</b>			
Profit/(loss) for the year		27,352	26,723
Plus/(less): Bull team revaluation		(4,524)	21,674
Tax effect on Bull team revaluation		1,267	(6,069)
Less: Gain on divestment of Automation business	14	-	(15,449)
Less: Fair value change in Nil Paid Share receivable		(363)	(1,202)
<b>Underlying earnings</b>		<b>23,732</b>	<b>25,677</b>
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		<i>\$0.17</i>	<i>\$0.18</i>

## Key results and position

### STATEMENT OF POSITION FOR THE YEAR As at 31 May 2023

<i>In thousands of New Zealand dollars</i>	Note	2023	2022
Cash		54,596	64,135
Debtors	8	37,628	48,190
Other assets	8	35,892	26,484
Nil Paid Shares receivable	6	4,327	8,651
Bull team	2	97,640	93,116
Land, buildings and equipment - owned & leased	3,5	113,547	106,426
Software, goodwill and other intangible assets	4	38,661	38,608
<b>Total assets</b>		<b>382,291</b>	<b>385,610</b>
Creditors	7	23,505	28,612
Borrowings	7	-	-
Deferred tax	9	27,732	26,262
Other liabilities	11	33,560	37,679
<b>Total liabilities</b>		<b>84,797</b>	<b>92,553</b>
<b>Net assets</b>		<b>297,494</b>	<b>293,057</b>
Share capital	6	76,737	76,737
Retained earnings	6	170,742	169,624
Other reserves	6	50,015	46,696
<b>Total equity</b>		<b>297,494</b>	<b>293,057</b>

Director

Date: 19 July 2023

Director

Date: 19 July 2023

## Key results and position

### STATEMENT OF CASH FLOWS FOR THE YEAR For the year ended 31 May 2023

<i>In thousands of New Zealand dollars</i>	Note	2023	2022
Customer receipts		276,609	261,249
Supplier payments		(236,542)	(206,181)
Net tax payments		(3,983)	2,125
Other operating cash flows		707	(63)
<b>Net operating cash flows</b>	<b>13</b>	<b>36,791</b>	<b>57,130</b>
Software development		(9,611)	(6,580)
Net sales/(purchases) of land, buildings and equipment		(10,966)	(10,570)
Sale of net assets held for sale	14	-	35,571
Other investment cash flows		(4)	(739)
<b>Net investment cash flows</b>		<b>(20,581)</b>	<b>17,682</b>
Payment of principal portion of lease liabilities		(4,319)	(3,597)
Drawdown/(repayment) of borrowings		-	-
Nil Paid Share receipts		334	352
Dividends paid		(21,881)	(26,363)
<b>Net financing cash flows</b>		<b>(25,866)</b>	<b>(29,608)</b>
<b>Movement in cash for year</b>		<b>(9,656)</b>	<b>45,204</b>
Cash at beginning of the year		64,135	18,821
Currency movement on cash holdings		117	110
<b>Cash at end of the year</b>		<b>54,596</b>	<b>64,135</b>

## Key results and position

### STATEMENT OF CHANGES IN POSITION FOR THE YEAR

For the year ended 31 May 2023

<i>In thousands of New Zealand dollars</i>	Note	Share capital	Retained earnings	Other reserves	Total equity
Balance at 1 June 2022		76,737	169,624	46,696	<b>293,057</b>
Profit/(loss) for the year		-	27,352	-	<b>27,352</b>
Dividends paid		-	(26,234)	-	<b>(26,234)</b>
Hedge revaluations		-	-	113	<b>113</b>
Foreign currency translation movements		-	-	(85)	<b>(85)</b>
Investment revaluations		-	-	1,711	<b>1,711</b>
Land and buildings revaluations	3, 6	-	-	1,580	<b>1,580</b>
<b>Balance at 31 May 2023</b>		<b>76,737</b>	<b>170,742</b>	<b>50,015</b>	<b>297,494</b>
Balance at 1 June 2021		76,737	174,687	41,821	<b>293,245</b>
Profit/(loss) for the year		-	26,723	-	<b>26,723</b>
Dividends paid		-	(32,052)	-	<b>(32,052)</b>
Hedge revaluations		-	-	124	<b>124</b>
Investment revaluations		-	-	(5)	<b>(5)</b>
Land and buildings revaluations	3, 6	-	-	4,756	<b>4,756</b>
Adjustments on divestment		-	266	-	<b>266</b>
<b>Balance at 31 May 2022</b>		<b>76,737</b>	<b>169,624</b>	<b>46,696</b>	<b>293,057</b>



## More Details

### 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 2023.

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 NZX Ltd. 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.

The majority of the Group's business does not follow a clearly identifiable operating cycle, therefore the balance sheet is presented in order of liquidity as it is more relevant to the users of the financial statements.

##### 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

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 dairy farmers.
- Farm software: data recording, tags and farm management information services.
- Diagnostics: provides DNA and animal health testing services.

NZ Market Genetics revenue is primarily recognised at a point in time, upon delivery of product to the customer. All other revenue lines are primarily recognised over time, as the service to the customer is provided.

*In thousands of New Zealand dollars*

2023	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	113,467	39,472	53,249	29,067	41,251	-	<b>276,506</b>
Inter-segment revenue	-	-	-	-	5,706	(5,706)	-
<b>Total revenue</b>	<b>113,467</b>	<b>39,472</b>	<b>53,249</b>	<b>29,067</b>	<b>46,957</b>	<b>(5,706)</b>	<b>276,506</b>
Depreciation & amortisation	(1,540)	(5,835)	(1,293)	(3,528)	(10,920)	-	<b>(23,116)</b>
<b>Segment gross profit before tax</b>	<b>72,815</b>	<b>20,633</b>	<b>40,043</b>	<b>13,208</b>	<b>16,578</b>	-	<b>163,277</b>
Bull team revaluation							4,524
Unallocated amounts							(131,802)
<b>Profit/(loss) before tax expense from continuing operations</b>							<b>35,999</b>

2022	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	104,621	36,803	51,548	26,881	43,329	-	<b>263,182</b>
Inter-segment revenue	-	-	-	-	4,281	(4,281)	-
<b>Total revenue</b>	<b>104,621</b>	<b>36,803</b>	<b>51,548</b>	<b>26,881</b>	<b>47,610</b>	<b>(4,281)</b>	<b>263,182</b>
Depreciation & amortisation	(1,228)	(5,606)	(2,279)	(3,297)	(10,339)	-	<b>(22,749)</b>
<b>Segment gross profit before tax</b>	<b>69,091</b>	<b>19,874</b>	<b>38,439</b>	<b>10,682</b>	<b>18,542</b>	-	<b>156,628</b>
Bull team revaluation							(21,674)
Unallocated amounts							(122,331)
<b>Profit/(loss) before tax expense from continuing operations</b>							<b>12,623</b>

The Other segment includes international operations, research & development and support services. Unallocated amounts include personnel costs, other expenses and net finance costs and are unallocated because the effort and cost involved to accurately allocate these amounts to individual business segments would outweigh the benefit.

## Notes to the Financial Statements

### 1. Business analysis (cont.)

#### (ii) Geographic analysis

*In thousands of New Zealand dollars*

2023	New Zealand	Australia	Ireland	United Kingdom	Other	Total
Revenues	254,001	10,186	3,605	2,724	5,990	<b>276,506</b>
Non-current assets	253,959	4,756	1,060	9,425	-	<b>269,200</b>
2022						
Revenues	242,308	9,494	2,548	3,501	5,331	<b>263,182</b>
Non-current assets	245,406	5,614	907	8,135	-	<b>260,062</b>

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%)
- **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 grants and R&D tax incentives income of \$8.477 million (2022: \$9.820 million).

### 2. Bull Team

The bull team is the cornerstone asset of LIC's genetics business. The 915 total bulls (2022: 967 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/(loss) for the year. 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 (revenue attributable) that make up the bull team.

<i>In thousands of New Zealand dollars</i>	2023	2022
Opening balance	93,116	114,790
Bull team revaluation	4,524	(21,674)
<b>Closing balance</b>	<b>97,640</b>	<b>93,116</b>

<b>Key drivers of the model:</b>	2023	2022
Forecasted Fonterra Farmgate Milk Price*	\$8.25 - \$9.00	\$7.50 - \$9.60
WACC annualised post tax rate	7.75% - 8.78%	7.03% - 7.94%
Number of bulls in the team	128	136
Average % of run-off profile (years 2-5)	43%	41%

\*This is the long term to short term Milk Price outlook.

<b>The impact on the fair value of a change to these key drivers is summarised below:</b>	2023	2022
Run off profile	\$5.8m - average of 5% shift across years 2-5	
Impact on demand incorporating effect of reducing the 2023 forecast Farmgate Milk Price by \$1.25 in the short term and \$2.00 in the long term	\$17.9m	\$10.8m
WACC moves 100 basis points	\$2.9m	\$2.5m

## Notes to the Financial Statements

### 3. Land, buildings and equipment

Land and buildings are carried at fair value, determined by an independent valuer every year with a desktop valuation at April 2023 (most recent full valuation as at April 2021). Fair value is based on comparable sales for land and based on depreciated replacement cost for buildings. 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 are reviewed annually for any indications of impairment.

In thousands of New Zealand dollars	2023				2022			
	Land	Buildings	Equipment	Total	Land	Buildings	Equipment	Total
Opening balance	38,092	45,901	22,433	106,426	35,755	38,870	20,489	95,114
Additions	35	4,484	7,574	12,093	-	2,507	8,081	10,588
Disposals	-	(663)	(424)	(1,087)	-	(5)	(147)	(152)
Depreciation	-	(2,503)	(6,733)	(9,236)	-	(2,133)	(6,228)	(8,361)
Revaluation	(137)	2,460	-	2,323	2,337	3,358	-	5,695
Foreign exchange	-	(3)	(25)	(28)	-	8	21	29
Leased assets movement - note 5	-	1,824	1,232	3,056	-	3,296	217	3,513
<b>Closing balance</b>	<b>37,990</b>	<b>51,500</b>	<b>24,057</b>	<b>113,547</b>	<b>38,092</b>	<b>45,901</b>	<b>22,433</b>	<b>106,426</b>
Value if carried at cost	11,726	21,331	N/A		11,691	21,399	N/A	
Estimated useful lives	N/A	10-60 years	3-10 years		N/A	10-60 years	3-10 years	

### 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 are reviewed annually for indicators of impairment.

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

The genetic data in the LIC database increases 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.

In thousands of New Zealand dollars	2023				2022			
	Software & IP	Goodwill	Database	Total	Software & IP	Goodwill	Database	Total
Opening balance	25,760	2,348	10,500	38,608	31,595	2,330	10,500	44,425
Additions	9,646	-	-	9,646	6,501	-	-	6,501
Disposals/impairment	-	-	-	-	(2,278)	-	-	(2,278)
Amortisation	(9,557)	-	-	(9,557)	(10,220)	-	-	(10,220)
Foreign exchange	(51)	15	-	(36)	162	18	-	180
<b>Closing balance</b>	<b>25,798</b>	<b>2,363</b>	<b>10,500</b>	<b>38,661</b>	<b>25,760</b>	<b>2,348</b>	<b>10,500</b>	<b>38,608</b>

## Notes to the Financial Statements

### 4. Software and other intangibles (cont.)

At reporting date, software includes \$8.994 million (2022: \$9.513 million) of work in progress, which is not being amortised until it is ready for use.

#### (ii) Impairment testing of intangible assets

Allocation of Goodwill and the LIC Database to CGUs:

In thousands of New Zealand dollars	2023			2022		
	Farm software and herd testing CGU	Other CGU	Total	Farm software and herd testing CGU	Other CGU	Total
LIC database	10,500	-	10,500	10,500	-	10,500
Goodwill	-	2,363	2,363	-	2,348	2,348
	<b>10,500</b>	<b>2,363</b>	<b>12,863</b>	<b>10,500</b>	<b>2,348</b>	<b>12,848</b>

The LIC database and Other CGU Goodwill recoverable amounts have been determined using value in use.

For the LIC database and Other CGU Goodwill, 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 1.0-2.0% (2022: 0-1.0%) for the LIC database and Other CGU Goodwill. The discount rate applied is reviewed and updated annually for movements in published Treasury risk-free rates and is 8.3-10.4% for the LIC database and Other CGU Goodwill (2022: 8.0% for the LIC database and Other CGU 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 4.9% (2022: 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	2023				2022			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Opening Balance	10,829	273	5,997	17,099	7,533	185	5,868	13,586
Depreciation	(1,402)	(96)	(2,825)	(4,323)	(1,233)	(166)	(2,362)	(3,761)
Additions	3,322	3	4,389	7,714	4,529	249	2,461	7,239
Disposals/Modifications	(97)	-	(238)	(335)	-	5	30	35
<b>Closing balance</b>	<b>12,652</b>	<b>180</b>	<b>7,323</b>	<b>20,155</b>	<b>10,829</b>	<b>273</b>	<b>5,997</b>	<b>17,099</b>
Lease terms	2-28 years	2-5 years	2-7 years		2-20 years	2-5 years	3-7 years	

##### Lease liabilities

Set out below are the carrying amounts of lease liabilities recognised at 31 May 2023 (included in Other liabilities) excluding lease liabilities held for sale:

In thousands of New Zealand dollars	2023				2022			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Within 1 year	1,208	23	3,013	4,244	1,191	138	2,113	3,442
Between 1 to 5 years	4,466	-	4,754	9,220	3,788	22	4,081	7,891
More than 5 years	8,004	-	-	8,004	6,706	-	34	6,740
<b>Closing balance</b>	<b>13,678</b>	<b>23</b>	<b>7,767</b>	<b>21,468</b>	<b>11,685</b>	<b>160</b>	<b>6,228</b>	<b>18,073</b>

#### (iii) Lease related amounts in the Statement of Results

In thousands of New Zealand dollars	2023				2022			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Depreciation	1,402	96	2,825	4,323	1,233	166	2,362	3,761
Interest expense	478	4	370	852	403	8	295	706
Variable lease payments	-	-	1,123	1,123	-	-	1,274	1,274
Short-term and low-value leases	-	9	-	9	-	67	-	67
<b>Total amount</b>	<b>1,880</b>	<b>109</b>	<b>4,318</b>	<b>6,307</b>	<b>1,636</b>	<b>241</b>	<b>3,931</b>	<b>5,808</b>

The Group had total non-variable cash outflows for leases of \$4.868 million in 2023 (\$4.492 million in 2022).

## Notes to the Financial Statements

### 6. Funding

The Group's funding comes from Share Capital, Retained earnings, Other reserves and Borrowings.

#### (i) Ordinary Shares

All Ordinary Shares have voting rights and the right to receive dividends based on the profits of the Company.

At reporting date there were 142,344,836 Ordinary Shares on issue, excluding 5,337,584 shares held as treasury stock (2022: 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 \$4.327 million (2022: \$8.651 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 8.0% (2022: 5.0%).

#### (iii) Other reserves and equity

In thousands of New Zealand dollars	Hedge	Investment	Land & building	Foreign currency	Other
	revaluation	revaluation	revaluation	translation	reserves
	reserve	reserve	reserve	reserve	
Balance at 1 June 2022	58	4,858	41,780	-	46,696
Profit/(loss) for the year	-	-	-	-	-
Dividends paid	-	-	-	-	-
Revaluations	113	1,711	1,580	(85)	3,319
<b>Balance at 31 May 2023</b>	<b>171</b>	<b>6,569</b>	<b>43,360</b>	<b>(85)</b>	<b>50,015</b>
Balance at 1 June 2021	(66)	4,863	37,024	-	41,821
Profit/(loss) for the year	-	-	-	-	-
Dividends paid	-	-	-	-	-
Revaluations	124	(5)	4,756	-	4,875
<b>Balance at 31 May 2022</b>	<b>58</b>	<b>4,858</b>	<b>41,780</b>	<b>-</b>	<b>46,696</b>

#### (iv) Bank debt

Bank loans for seasonal funding requirements 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.

In thousands of New Zealand dollars	2023				2022			
	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	-	-	-	-	-	-	-	-
Creditors	23,505	-	-	23,505	28,612	-	-	28,612
	23,505	-	-	23,505	28,612	-	-	28,612

The Group has bank funding facilities in place until February 2024 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 2023 was 5.3% (2022: 3.2%). A 1.0% increase in interest rates would increase interest paid and reduce profit after tax by approximately \$0.003 million (2022: \$0.003 million).

### 8. Debtors and other assets

#### (i) Debtors

Bad debts of \$0.007 million have been expensed during the year (2022: \$0.029 million), and 94.0% of trade receivables are not past due (2022: 98.0%).

#### (ii) Other assets

In thousands of New Zealand dollars	2023	2022
Inventories	19,923	12,368
Investments	15,027	13,261
Derivatives used for hedging	164	51
Other livestock	778	804
	35,892	26,484

Inventories utilised and expensed during the period amounted to \$33.113 million (2022: \$27.563 million). Inventories written off in 2023 totalled \$0.038 million (2022: \$0.684 million).

Investments are non-current assets and are held at fair values based on available share prices and other market information. Gains and losses are recognised in other comprehensive income, as investments are not held for trading. Significant investments include National Milk Records PLC \$9.319 million (2022: \$7.975 million) and Figured Limited \$4.207 million (2022: \$3.999 million).

In 2022 Debtors included an amount in relation to LIC's transition to the R&D Tax Incentive scheme, from 2023 such balances are reported as part of Provision for tax in Other liabilities due to the IRD approving the 2021 and 2022 R&D tax incentive claim in the current year.

## 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

In thousands of New Zealand dollars	2023	2022
Profit/(loss) for the year from continuing operations	27,352	10,623
Tax expense	8,647	2,000
<b>Profit/(loss) before tax expense from continuing operations</b>	<b>35,999</b>	<b>12,623</b>
Tax at 28% NZ company tax rate	10,080	3,534
Effect of overseas income	(683)	(156)
Non-deductible items	(774)	(1,563)
Adjustments from prior periods	24	185
<b>Tax expense</b>	<b>8,647</b>	<b>2,000</b>
Current tax expense	7,843	8,612
Deferred tax expense	804	(6,612)
Imputation credits available	19,006	16,687

LIC has transitioned to the R&D Tax Incentive from the Callaghan Growth Grant. The R&D Tax Incentive scheme includes both core R&D expenditure, as well as other expenses that support R&D, and is recorded as non-taxable revenue.

#### (ii) Deferred tax liability

In thousands of New Zealand dollars	As at 31 May 2023	Through Profit/(loss)	Through Other reserves	As at 31 May 2022	Through Profit/(loss)	Through Other reserves	As at 31 May 2021
Bull team & livestock	26,835	1,168	-	25,667	(6,117)	-	31,784
Buildings & equipment	1,762	(212)	666	1,308	147	939	222
Intangible assets	1,460	-	-	1,460	(569)	-	2,029
Other	(2,325)	(152)	-	(2,173)	(73)	-	(2,100)
<b>Total</b>	<b>27,732</b>	<b>804</b>	<b>666</b>	<b>26,262</b>	<b>(6,612)</b>	<b>939</b>	<b>31,935</b>

### 10. Other expenses

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

In thousands of New Zealand dollars	2023	2022
Audit of the financial statements	210	196
Tax - compliance services for R&D Tax Incentive scheme	17	287
Agreed upon procedures*	24	-
Compilation of dataset of metrics	11	-
<b>Total</b>	<b>262</b>	<b>483</b>

\*Agreed upon procedures related to the R & D Tax Incentive scheme and disclosure of historical financial data in a sustainability report.

As part of business activities, LIC incurs research and development expenses while working on a number of projects. Research and Development expenses were previously disclosed separately on the face of the 'Statement of Results', however are now presented in the notes as include both people costs and other expenses.

In thousands of New Zealand dollars	2023	2022
Research & Development Expenses	18,577	18,184

## Notes to the Financial Statements

### 11. Other liabilities

<i>In thousands of New Zealand dollars</i>	2023	2022
Provisions for employee entitlements	9,340	7,521
Provision for sire proving rebate	2,547	2,599
Provision for tax	(327)	8,910
Lease liabilities - current	4,244	3,442
Lease liabilities - non-current	17,224	14,631
Other	532	576
	<b>33,560</b>	<b>37,679</b>

The provision for sire proving rebate represents a rolling three years of expected rebate payments, with approximately \$1 million due to be paid in each of the next three years, discounted to 31 May 2023.

### 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:

<i>In thousands of New Zealand dollars</i>	2023	2022
Remuneration of key Management and Directors	4,197	5,280
Sale of goods and services to key Management and Directors	597	512
Purchases of goods and services from key Management and Directors	166	274

Directors of the Company and their related entities hold 375,359 Ordinary Shares, representing 0.3% of shares on issue (2022: 294,950 Ordinary Shares, representing 0.2%).

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>	2023	2022
<b>Profit/(loss) for the year</b>	<b>27,352</b>	<b>26,723</b>
<i>Adjusted for:</i>		
Depreciation and amortisation on all assets	23,116	22,749
Bull team revaluation	(4,524)	21,674
Deferred tax expense	804	(6,612)
Working capital movements and other non-cash items	(9,957)	(7,404)
<b>Net operating cash flows</b>	<b>36,791</b>	<b>57,130</b>

## 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 \$38.100 million (with \$3.788 million held in escrow until June 2023 and the remainder paid in cash). The escrow was released to LIC on 28 June 2023.

The transaction was completed on 11 June 2021 and LIC provided transitional services to the purchaser until 10 June 2023.

The results for discontinued operations are presented below:

<i>In thousands of New Zealand dollars</i>	2023	2022
Revenue	-	1,052
Purchased materials	-	(264)
People costs	-	(94)
Other expenses	-	(626)
Gain on sale of net assets	-	15,449
Net finance costs	-	232
<b>Profit/(loss) before tax expense from discontinued operations</b>	<b>-</b>	<b>15,749</b>
Tax expense	-	351
<b>Profit/(loss) for the year from discontinued operations</b>	<b>-</b>	<b>16,100</b>
<i>Profit from discontinued operations per Ordinary Share (excl. treasury stock)</i>	<i>\$ -</i>	<i>\$0.11</i>

Total gain on sale of net assets of \$15.449 million arose from the sale price of \$38.100 million plus agreed working capital adjustments, less value of net assets held for sale of \$23.815 million (as at 31 May 2021).

Cash and Creditors in the 2023 Statement of Position includes \$0.041 million (2022: \$3.005 million) for balances held in LIC bank accounts on behalf of the purchaser of LIC's automation business.

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

<i>In thousands of New Zealand dollars</i>	2023	2022
Operating	-	956
Investing	-	35,571
Financing	-	-
<b>Movement in cash for the year</b>	<b>-</b>	<b>36,527</b>

### 15. Subsequent events

On 7 June 2023, LIC announced its intention to divest its 19.8% shareholding in National Milk Records PLC by way of a scheme of arrangement. The scheme is subject to approval by the UK courts and other customary conditions. The transaction is expected to close in the third quarter of 2023 and, if approved, LIC would divest 4,194,880 shares in National Milk Records PLC at £2.15 per share.

After 31 May 2023, a dividend of 16.38 cents per Ordinary Share was proposed by the Directors in relation to the 2023 year, or \$23.323 million (2022: 18.43 cents per Ordinary Share, or \$26.232 million).

# Independent Auditor's Report

To the shareholders of Livestock Improvement Corporation

## Report on the audit of the consolidated financial statements

### Opinion

In our opinion, the consolidated financial statements of Livestock Improvement Corporation Limited (the 'Company') and its subsidiaries (the 'Group') on pages 7 to 21:

- i. Present fairly, in all material respects the Group's financial position as at 31 May 2023 and its financial performance and cash flows for the year ended on that date; in accordance 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 2023;
- The consolidated statements of result, 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 compliance services relating to the research and development tax credit, agreed upon procedure engagements over the research and development tax credit and the disclosure of historical financial data in a sustainability report, and a compilation of a dataset of metrics. 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 \$1,480,000 determined with reference to a benchmark of profit/(loss) for the year before tax (excluding bull team revaluation movements). We chose the benchmark because, in our view, this is a key measure of the Group's performance.

### 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
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#### 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 prepares a model that projects the number and types of straws that the current team can produce and will be sold over the useful 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 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 utilised our valuation specialists to review 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.

We considered the adequacy of the related financial statement disclosures.

We had no matters to report as a result of our procedures.

#### 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 \$2.3m, arising from a number of acquisitions; and
- The LIC Animal Database of \$10.5m.

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

## The key audit matter

The two significant cash generating units (CGUs) holding these assets are tested twice a year for impairment using discounted cashflow models to determine the recoverable amount.

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

The market capitalisation deficit that exists at balance date is an indicator of impairment.

## How the matter was addressed in our audit

- Performing sensitivity analysis around the key assumptions used in the model.

We challenged management on whether the market capitalisation of the Group is an indicator of impairment and subsequently used our own valuation specialists to challenge 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 Key Metrics, Directors Report and the Corporate 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 free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

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

Our objective is:

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

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

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

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

<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

KPMG  
Hamilton

19 July 2023



# Corporate Governance Report

## Corporate Governance Statement

Livestock Improvement Corporation (“LIC” or the “Company”) is a New Zealand Co-operative Company, owned by New Zealand dairy farmers. Its shares are quoted on the Main Board of the New Zealand Stock Exchange (NZX) and it is a Climate Reporting Entity (as defined under The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021). LIC’s first climate statement reporting period will be for the year ended 31 May 2024.

In this section of the 2023 Annual Report, we report against the Principles and Recommendations of the NZX Corporate Governance Code dated 17 June 2022 (the NZX Code) and the extent that LIC has followed the NZX Code’s recommendations. This statement is current to 31 May 2023 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 ([www.lic.co.nz/shareholders/corporategovernance/](http://www.lic.co.nz/shareholders/corporategovernance/)) you will find the following corporate governance documents:

- Constitution

### Charters

- LIC Board Charter
- Audit, Finance & Risk Committee Charter
- Remuneration and Appointments Committee Charter
- Disclosure Committee Charter
- LIC Shareholder Reference Group, Board and Management Engagement Charter

### Other Corporate Governance Documents

- Code of Conduct and Ethics
- Continuous Disclosure Policy
- Diversity and Inclusion Policy
- Dividend Policy
- External Audit Independence Policy
- Honoraria Committee Terms of Reference
- Shareholder Reference Group Terms of Reference
- Share Trading and Disclosure Policy

Our latest Sustainability Report can also be accessed on LIC’s website at <https://www.lic.co.nz/about/environment-and-sustainability/sustainability/>

## 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.

## 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. LIC’s General Counsel 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 44.

## 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

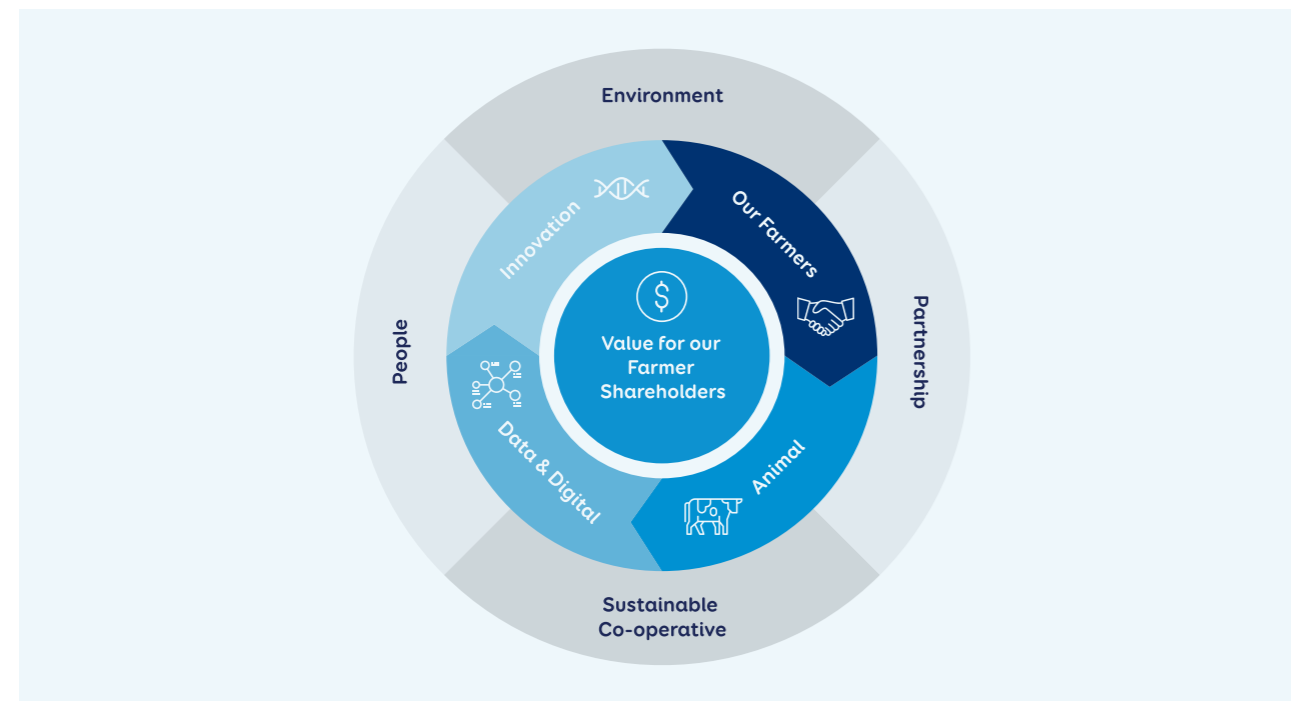
Legislation, the NZX Listing Rules and the Constitution establish the Board's responsibilities and include provisions for how the Company will operate. The structure of the Board and its governance arrangements are set out in the Company's Constitution and in the Board's written Charter which outlines 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.

### 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 the following:



LIC's strategy makes three commitments to farmers:

<p><b>1</b></p> <p><b>Operational Excellence</b></p> <p>LIC commits to getting the basics right and delivering for farmers, on time, every time.</p>	<p><b>2</b></p> <p><b>Faster Genetic Improvement</b></p> <p>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.</p>	<p><b>3</b></p> <p><b>Software Reliability and Performance</b></p> <p>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.</p>
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Full details of the strategy, including the measures for each of these commitments, are available on LIC's website at [www.lic.co.nz/about/our-strategy](http://www.lic.co.nz/about/our-strategy)

The Board is also directly responsible for approval of significant expenditures, policy determination, selection of Appointed Directors, oversight of risk (including climate-related risks and opportunities) and setting risk appetite for all risk categories) 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

The Board is comprised of six Elected and three Appointed Directors. The LIC Constitution allows for up to four Appointed Directors to be appointed to the Board.

The current Board of Directors is made up as follows:

- Elected Directors: Murray King (Chair), Ben Dickie, Ken Hames, Matt Ross, Corrigan Sowman (Chair-designate) and Alison Watters.
- Appointed Directors: Tim Gibson, Sophie Haslem and Candace Kinser.

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, can be found on the LIC website.

## Nomination, election and appointment of Directors

The nomination, election and appointment of Directors to the Board of LIC is also governed by the LIC Constitution. The relevant NZX Rulings and waivers to the NZX Listing Rules are set out on pages 50 and 51.

Elected Directors are nominated and elected by eligible Shareholders within the region each Director represents (two regions in total). Once elected they will hold office for a period of approximately three years. The term will be in accordance with the Rotation Schedule.

All recommendations and deliberations on the selection of Appointed Directors are undertaken by the full Board. Appointed Directors hold office for approximately three years.

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.

Tim Gibson was due to retire by rotation in October 2022 and sought re-appointment. His appointment as an Appointed Director was ratified by shareholders at the 2022 Annual Meeting for a further term of approximately three years.

In this year's Director elections, North Island Director Ken Hames and South Island Director Murray King are due to retire by rotation at the Annual Meeting. Murray King has decided, after fourteen years on the LIC Board, to not seek re-election while Ken Hames is seeking re-election as a North Island Director.

The elections are timed to coincide with the 2023 Annual Meeting.

Appointed Director, Sophie Haslem is due to retire by rotation in October 2023 and, with the support of the Board, will be seeking ratification of her re-appointment for a further term of three years at the 2023 Annual Meeting.

## Meetings

The Board met seven times in 2022/23 with seven additional strategy days. One further meeting of the Board was held with members of the DairyNZ and New Zealand Animal Evaluation Limited (NZAEL) boards to discuss NZAEL's proposals in relation to a national genomic animal evaluation system.

## Board Attendance:

No of meetings	Board Meetings		Special Board Meetings		Board Strategy Days	
	Held	Attended	Held	Attended	Held	Attended
Gray Baldwin*	7	3	1	-	7	-
Ben Dickie	7	7	1	1	7	6
Tim Gibson	7	6	1	1	7	7
Ken Hames	7	7	1	1	7	7
Sophie Haslem	7	7	1	-	7	7
Murray King	7	7	1	1	7	7
Candace Kinser	7	7	1	1	7	7
Matt Ross	7	7	1	1	7	7
Corrigan Sowman **	7	5	1	1	7	6
Alison Watters	7	5	1	1	7	7

\*retired at the 2022 Annual Meeting  
\*\* elected at the 2022 Annual Meeting

## 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. Directors also undertake in-market and stakeholder visits.

During the period the Board and members of the Senior Leadership Team visited the United States of America on a study tour to understand the latest innovations in information technology as well as advanced breeding technologies.

The Chair revises development plans for each of the Directors annually. These plans specifically focus on areas that will not only develop the individual Director but will also enhance overall Board capability. The Board development and engagement plan is actively referenced and reviewed at each Board meeting. In addition, budget provision is in place for Directors who want to undertake approved specific higher-level study, the cost of which is shared on a 50:50 basis.

## 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. Independent consultants, Propero Consulting Limited, were last engaged in 2021 and undertook a formal, independent review of the performance of the Board, individual Directors and Board committees. The Board was found to be operating effectively and specific areas for further development were shared with some Directors.

## 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, including the current Chair and the Chair-designate.

The Board has considered Murray King's tenure on the Board and 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, to act in the best interests of the company and to represent the interests of its Shareholders generally.







While all farmer Elected 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 and Chair-designate are assessed to be independent Directors. 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.

### 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:

As at 1 June 2022	Murray King, Gray Baldwin, Ben Dickie and Ken Hames
As at 14 November 2022	Murray King, Ben Dickie, Matt Ross and Corrigan Sowman

All the current members of the Committee are considered to be independent. Employees only attend Committee meetings at the invitation of the Committee.

The Committee meets at least four times a year and met six times in 2022/23.

### Remuneration and Appointments Committee

A Sub-Committee of the Board, the Remuneration and Appointments 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:

As at 1 June 2022	Murray King, Matt Ross and Alison Watters
As at 14 November 2022	Murray King, Ken Hames and Alison Watters

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 2022/23.

### 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, General Counsel and Communications Manager. Disclosure Committee meetings are also attended by key members of management as required.

The Committee meets as and when required and met once in 2022/23.

### New Zealand Animal Evaluation Committee

This Sub-Committee of the Board was established in October 2021. Under its terms of reference, the Committee has been asked to consider and advise the Board on the ongoing and future use of LIC intellectual property in a national genomic animal evaluation system. The Committee is chaired by Murray King with the other Director members being Tim Gibson, Matt Ross and Alison Watters.

The Committee met twice in 2022/23, and the Board was provided with multiple updates during 2022/23.

The Board believes that the importance of LIC's contribution to a future national genomic animal evaluation system should not be underestimated or undervalued and it remains a Board priority that discussions with DairyNZ and NZAEL reflect this.



## Board Committee attendance:

No of meetings	Audit, Finance & Risk Committee		Remuneration & Appointments Committee		Disclosure Committee		NZ Animal Evaluation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Gray Baldwin*	6	2						
Ben Dickie	6	6						
Tim Gibson			4	4			2	1
Ken Hames***	6	3	4	3				
Sophie Haslem	6	6			1	1		
Murray King	6	6	4	4	1	1	2	2
Candace Kinser								
Matt Ross***	6	4	4	1			2	2
Corrigan Sowman**	6	4						1 (observer)
Alison Watters			4	4			2	1

\*retired at the 2022 Annual Meeting

\*\* elected at the 2022 Annual Meeting

\*\*\*meetings attended impacted by changes to committee membership during 2022/23

## Technology Advisory Board

In addition to the above Committees, Appointed Director Candace Kinser chaired two meetings of LIC's Technology Advisory Board during 2022/23. Four 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.

**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

## Takeovers

Due to LIC's co-operative company status, its Constitution and the Dairy Industry Restructuring Act 2001 (DIRA) 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.

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.

## 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 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.

## Non-financial reporting

### Sustainability

LIC's annual sustainability report is prepared in accordance with the core option of the Global Reporting Initiative (GRI) Standards and in line with our commitments as members of the Climate Leaders Coalition and the Sustainable Business Council. The Sustainability Report is a key component of LIC's move towards integrated reporting.

LIC's first climate statement reporting period will be for the year ended 31 May 2024.



## Diversity, Equity 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.

As at the 2022/23 year-end, members of the Board and Senior Leadership Team self-identified as follows:

	2023			2022		
	M	F	GD	M	F	GD
LIC Board	6	3	-	6	3	-
LIC Senior Leadership Team	6	2	-	5	2	-

Key: M = Male / F = Female / GD = Gender Diverse

LIC's staff-led Diversity, Equity and Inclusion Committee aims 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.

A variety of diversity, equity and inclusion related topics, information and events have been presented to staff and a regular newsletter is produced which highlights specific cultural and international events and celebrations. The newsletter also provides educational information for staff on topics relating to diversity, equity and inclusion to increase the wider staff's understanding of these concepts.

The Committee identified two main areas of focus for the coming year. These are:

- Implementation of a Te Ao Māori Strategy
- Establishment of a Women in Leadership Group.

### Te Ao Māori Strategy:

LIC has partnered with Tūtira Mai NZ, a leading cultural competency and Māori advisory consultancy organisation to design and implement a Te Ao Māori Strategy. Work has commenced on this and will be rolled out in the next 2-3 years.

### Women in Leadership Group:

This group has been set up with the aim of fostering a community of women and empowering them to become leaders in their respective fields. The group seeks to build strong connections across various industries, and to provide mentorship and development advice from experts with diverse backgrounds and skill sets.

LIC continues to collect baseline data from its employees on an opt-in basis, which now includes religion, gender identity and disability, in addition to age and ethnicity. This information has highlighted that LIC is a reasonably diverse company. The aim is to continually update our baseline data so that targeted initiatives can be completed.

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

### Directors Remuneration

Under LIC's Constitution, LIC has an Honorary Committee tasked with considering and recommending to Shareholders the form and amount of fees paid to LIC's Directors. The Honorary Committee is made up of between two and four Shareholders, elected by their fellow Shareholders. The Honorary Committee's terms of reference are on the LIC website. LIC does not have a directors' remuneration policy, relying instead on the Honorary Committee to recommend to Shareholders the remuneration to be paid to the Directors.

The total remuneration for LIC's Directors is approved by Shareholders at the Annual Meeting and the current pool of \$664,000 was approved at the meeting held in October 2022.

Directors of the Company received the following remuneration for the twelve months ending 31 May 2023:

In support of initiatives that foster an inclusive working environment, 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, equity and inclusion within our workplace. Management appointment interviews are conducted by a panel that represents diversity of thought. Training for all employees is provided on the benefits of diversity, equity and inclusion and has been developed and implemented to drive an understanding of unconscious bias.

In addition to the above, LIC continues to look at its 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.

*In thousands of New Zealand dollars*

	Board	AFRC	Rem	TAB	Total Fees
M King	129				129
G Baldwin*	21				21
B Dickie	57				57
T Gibson	57		13		70
K Hames	57				57
S Haslem	57	20			77
C Kinsler	57			13	70
M Ross	57				57
C Sowman**	36				36
A Watters	57				57
					<b>631</b>

\*retired at the 2022 Annual Meeting  
\*\* elected at the 2022 Annual Meeting

In addition to the above remuneration, and in accordance with the Constitution, Directors are reimbursed for any actual and reasonable expenses incurred while on LIC business. This is

paid in the form of a standard annual incidental allowance with any further actual and reasonable expenses incurred while on LIC business also reimbursed. The standard annual incidental allowance is set at \$1,200 for each Director and \$6,000 for the Chair. The payment of a standard incidental allowance reduces the administrative effort required in submitting and processing transactions of a relatively low value.

The Directors receive no other benefits.

Directors of subsidiaries of the Company received the following remuneration for the twelve months ending 31 May 2023:

*In thousands of New Zealand dollars*

	Fees
E Ruiz	4
	<b>4</b>

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 38.

### Chief Executive Remuneration

Chief Executive (CE) David Chin's remuneration package is made up of a combination of base salary and annual performance payments. His performance is assessed based on a range of factors including:

- Overall financial performance (40%): delivery of the annual plan and financial budget
- Overall strategic performance (60%), including:
  - Organisational health (target to be a top quartile organisation)
  - Customer delivery (target to achieve improvement in customer Net Promoter Score)
  - Delivery of strategy and key projects

The remuneration paid to LIC's CE for the year ending 31 May 2023 is set out below:

*In thousands of New Zealand dollars*

	2023
Base Salary (TPV)	500
Short-term incentive payment received	67
Total	<b>567</b>

The CE's current remuneration package consists of \$500,000 TPV and short-term incentive target of achieving both budget goals and other standard objectives (20% of TPV) as well as stretch objectives in relation to strategy (20% of TPV) and does not include any long-term incentives or share options.



## Employee Remuneration

LIC has a Remuneration Policy for all employees which is available to employees on LIC's intranet.

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 2022 to 31 May 2023 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	58	5	63
110,000 - 119,999	43	2	45
120,000 - 129,999	38	1	39
130,000 - 139,999	26	1	27
140,000 - 149,999	25	2	27
150,000 - 159,999	11	-	11
160,000 - 169,999	13	2	15
170,000 - 179,999	7	1	8
180,000 - 189,999	2	-	2
190,000 - 199,999	5	-	5
200,000 - 209,999	3	-	3
210,000 - 219,999	5	-	5
220,000 - 229,999	3	1	4
230,000 - 239,999	6	-	6
250,000 - 259,999	4	-	4
260,000 - 269,999	3	-	3
270,000 - 279,999	3	-	3
300,000 - 309,999	1	-	1
370,000 - 379,999	1	-	1
390,000 - 399,999	1	-	1
500,000 - 509,999	2	-	2
560,000 - 569,999	1	-	1
640,000 - 649,999	1	-	1
	<b>262</b>	<b>15</b>	<b>277</b>

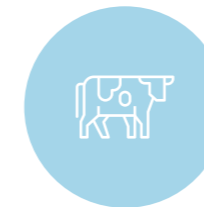
**NZX Code Principle 6, Risk Management: Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.**

## Managing Risk

LIC has a risk management framework in place to support the identification, quantification and management of risk. LIC's risk management framework fosters improved ownership of risk identification and management across all levels of the business and a new risk tool launched in 2022 supports this occurring in real time. Key risk indicators provide management with early

warning of any risks requiring increased focus. LIC's risk ratings against appetite are reported to the Senior Leadership Team and the Audit, Finance & Risk Committee on a regular basis, with each risk category and its associated risk causes and controls reviewed periodically by the Senior Leadership Team and the Audit, Finance & Risk Committee.

### LIC's risk categories are:



#### Biosecurity & Animal Health

A biosecurity or animal health event impacts LIC's livestock or its ability to provide products or services to its customers.



#### Economic Conditions on Farm

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.



#### Brand Damage

Continued short-term reputational damage results in damage to LIC's brand.



#### Financial Risk

Failure to manage LIC's debts and financial leverage or to identify fraud, internal errors or money owned results in LIC being unable to cover operational costs and or pay back its debts.



#### Market Disruption

The inability to commercialise innovations or respond quickly to market disruption or emerging technologies causes reduce use by Shareholders of existing products or services with a resultant reduction in revenue.



#### Health & Safety

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.



#### Compliance

Breaches of laws, regulations, licences, standards, NZX continuous disclosure requirements or OMARs result in restrictions, penalties, or loss.



#### People & Capability

Availability, capability and engagement of our people and key vendors to effectively execute LIC strategic plan.



#### Disruption to Production or Service

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.



#### Strategic Risk

An inability to deliver LIC's agreed strategy due to disruption, planning, risk, resourcing and other barriers not identified or managed.

Of particular interest to Shareholders and stakeholders will be 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 (animal handling, agrichemicals, farm machinery use and regular presence on customer farms) lone working, working at heights and 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.

For the last 14 years, LIC used the TRIR (Total Recordable Incident Rate) as the enterprise safety measure of notifiable events, lost time injuries, medical treatment claims and traffic infringements. From 1 June 2022, LIC has used LTIFR (Lost Time Injury Frequency Rate) as the enterprise safety measure. LTIFR is the number of lost time injuries within a certain accounting period, relative to the total number of hours worked in that period.

The main benefits of using LTIFR are:

- It enables benchmarking with others in New Zealand and in the dairy sector
- It provides for a focus on more severe injuries (injuries resulting in an employee being unable to attend work for at least one full day or shift known as 'lost time injuries').

The LTIFR is not LIC's sole safety measure - it complements a range of other leading and lagging safety measures, which are regularly reported to the Senior Leadership Team and the Board.

	2022/23	2021/22
TRIR (100 FTE)	3.79	2.13
LTIFR (200,000 h)	2.23	1.81
Notifiable Events	1	2

As can be seen from the table above, the TRIR and LTIFR values increased since 2021/22. The 2021/22 TRIR and LTIFR values set a high comparative benchmark, as LIC was still affected by Covid-19 lockdowns during that time.

The number of notifiable events decreased in 2022/23 with only one notifiable incident compared with two in 2021/22.

Other performance indicators also showed that the number of events reported increased in 2022/23 and more of these were of lower consequence compared to the previous year.

The Company's safety strategy concentrates on: ongoing health and safety improvement, critical risk management, learning from our safety events, supporting workers, and providing development opportunities.

This year we focused on:

- Improvements to our hazardous substance training and capability, emergency response plans, and our storage facilities.
- Implementing health and safety objectives within all business units, focussing on their unique risks to enable ongoing improvement.
- Improving near miss reporting, timely completion of event investigations and improvement actions through training and enhancements to our reporting system.
- Providing all Health and Safety Representatives with the opportunity to receive additional training to enhance their health and safety knowledge.
- The revision of our health and safety risk management procedure to provide more guidance on how to manage risks at LIC, and to clarify the expectations for managing our critical risks.

We have also started a review to help fully understand LIC's safety culture and leadership, the outcomes of which will be used to develop Company-wide safety leadership training and

to improve the Company's proactive risk control verification processes.

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 bull semen during a season relies on a number of factors, including the maintenance and operation of key equipment, staff and 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. A Crisis Management Framework is in place, supported by defined key roles and alternates and business continuance plans, and these are reviewed and tested regularly including an annual crisis simulation exercise.

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 visibility across the technology environment provide the ability to detect potential threats. Business continuity and disaster recovery plans are in place (including for cyber attacks) and reviewed regularly and backups are performed regularly to support LIC's recovery should it be needed.

### 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. 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, 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. Off-shore business activity also provides a buffer for NZ-specific impacts.

### 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 through the segregation of duties. 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 quarantine bulls maintained separately to production bulls. Controls are in place on LIC's bull farms, including segregation of bulls and double-fencing, for safety and to reduce the risk of unwanted organisms, such as Mycoplasma bovis (M.bovis). Bulls are regularly inspected and undergo health testing. Business continuity plans are in place and tested. LIC has veterinary and epidemiological expertise within the Company.

### 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 maintains a watching brief on the innovation and technology landscape and follows 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. LIC regularly reviews progress against strategic objectives and has developed key metrics to ensure delivery of the commitments made to Shareholders.

## Climate

Climate risk is a sub-category risk in LIC's risk management tool as it impacts more than one of LIC's key risk areas. LIC has identified transition and physical risks related to climate change.

LIC is a member of the Climate Leaders Coalition and the Sustainable Business Council. LIC measures and publicly reports our greenhouse gas emissions, and has set a public, science based, emissions reduction target, and works with our staff and suppliers to build 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. The Resilient Dairy programme is a great example of our commitment to long-term future improvement.

## 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. This policy can be found on the LIC website. The Board is satisfied that there is no relationship between the Auditor and LIC or any related person at this time, that 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 that we are fully compliant with. LIC's external auditor attends its Annual Meeting each year to answer questions from Shareholders in relation to the audit.

### 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 internal 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 both virtually and in person on Thursday 12 October 2023 at 5pm at the Hotel Ashburton, Ashburton and online ([www.lic.co.nz/annualmeeting](http://www.lic.co.nz/annualmeeting)). LIC welcomes Shareholders' attendance either on-line or in person. A Notice of Meeting will be sent to Shareholders in September 2023.

## 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

### Benjamin John Dickie:

#### Director of:

- Taranaki Veterinary Centre Limited

### Timothy Dunlop Gibson:

#### Director of:

- The Equanut Company Limited (Chair)
- Manage My Health Global Limited (Ceased 31 May 2023)
- Miraka Limited (Ceased 10 February 2023) and subsidiaries:
  - Miraka Brands Limited (Ceased 10 February 2023)
  - Miraka Holdings Limited (Ceased 10 February 2023)
- Omnieye Holdings Limited
- Port Otago Limited Port Otago Limited (Chair from 1 January 2023) and subsidiaries:
  - Chalmers Properties Limited
  - Fiordland Pilot Services Limited
  - Port Chalmers Container Terminal Limited (from 19 December 2022)
  - 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 (Ceased 27 June 2022)
- The Skills Organisation Incorporated
- Tūhana Business & Human Rights Limited
- Tūhana Consulting Limited

### Kenneth Charles Hames:

#### Chair of

- Extension 350 (Ceased October 2022)
- Duke of Edinburgh Award NZ

### Sophie Haslem:

#### Director of:

- Centreport Limited and subsidiaries:
  - Centreport Captive Insurance Limited
  - Centreport Properties Limited
- Kordia Group Limited (Chair from 1 November 2022) and subsidiaries:
  - Kordia Limited (from 10 June 2022)
  - Kordia New Zealand Limited (from 10 June 2022)
- Meteorological Service of New Zealand Limited (Ceased 1 April 2023)
- Ngāi Tahu Holdings Corporation Limited
- Payments NZ Limited
- Rangitira Limited

#### Shareholder of:

CH4 Global Inc

### Murray Grant King:

#### Director of:

- Appleby Limited (Removed from Companies Register 25 May 2023)
- Cawthron Institute
- Dry Steam Irrigation Company Limited

#### Board member of:

- NZ Rural Leadership Trust (from 30 May 2023)

#### Director and Shareholder of:

- Callura Dairies Management Limited
- Long Plantation Investments Limited
- New Zealand Dairy Dessert Company Limited
- Waimea Irrigators Limited
- Waimea Community Dam Limited



### Candace Nicole Kinser:

#### Director of:

- Cancer Society of New Zealand Incorporated
- Eastland Group Limited and subsidiaries:
  - Eastland Generation Limited
  - Firstlight Network Limited (formerly Eastland Network Limited) (Ceased 31 March 2023)
  - Eastland Port Limited
  - Gisborne Airport Limited
- Helius Therapeutics Limited (Chair)
- New Zealand Health Partnerships Limited (Ceased 1 July 2022)
- Punakaiki Fund Limited (Ceased 31 March 2023)

#### Chair of:

- Cancer Society of New Zealand, Auckland Northland Division Incorporated
- Advisory Board of Superb Herb Company Limited (Ceased 31 May 2023)

#### Investment Committee Member of:

Return on Science Investment Scheme at the University of Auckland

### Matthew Fraser Ross:

#### Director of

- North Otago Irrigation Company Limited (Chair)

#### Director and Shareholder of:

- Bortons Agri Limited

### Corrigan George Sowman:

#### Member of:

- Fonterra Sustainability Advisory Panel

### Alison Jane Watters:

#### Director of:

- AsureQuality Limited (Ceased 31 October 2022)
- Fonterra Co-Operative Group Limited (from 10 November 2022)
- High-Value Nutrition (National Science Challenge)
- Meteorological Service of New Zealand Limited (Acting Chair as of 1 April 2023)
- Totally Vets Limited

#### Shareholder of:

- AgInvest Holdings Limited (27.61%) AgInvest owns MyFarm Limited which in turn has a 16.71% holding in Figured Limited.
- Agriculture Resources Limited



## Senior Staff

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

### Emma Jane Blott (GM Commercial)

#### Director of:

- Eurogene AI Services (Ireland) Limited
- Pastoral Greenhouse Gas Research Limited (from 22 June 2020 to 17 November 2022)

### David James Hazlehurst (Chief Financial Officer)

#### Director of:

- Dairy Goat Co-operative (NZ) Limited (from 4 April 2023)
- Figured Limited

### Michael Rose (Country Manager, Australia)

#### Director of:

- National Herd Improvement Australia (NHIA)

## The Directors of the Company's subsidiaries as at 31 May 2023 are set out below:

- LIC Agritechnology Company Limited: Murray King, Ben Dickie, Tim Gibson, Ken Hames, Sophie Haslem, Candace Kinser, Matt Ross, Corrigan Sowman and Alison Watters.
- Livestock Improvement (New Zealand) Corporation Limited: David Chin, David Hazlehurst and Murray King
- LIC Ventures No. 1 Limited (formerly LIC Automation Limited): David Chin and David Hazlehurst
- LIC Ventures No.3 Limited: David Chin and David Hazlehurst
- Agrigate GP Limited (a 100% owned subsidiary of LIC Ventures No. 3 Limited from 18 August 2021): Emma Blott, David Hazlehurst and Dhaya Sivakumar
- Livestock Improvement Pty Limited: Emma Blott and Michael Rose
- Farmkeeper Pty Limited: Emma Blott and Michael Rose
- Overland Corner Holdings Pty Limited: Emma Blott and Michael Rose
- Beacon Automation Pty Limited: Emma Blott, David Hazlehurst and Michael Rose
- Livestock Improvement Corporation (UK) Limited: David Hazlehurst and Mark Ryder
- LIC Ireland Limited: David Hazlehurst and Mark Ryder
- Livestock Improvement Automation Limited: David Hazlehurst and Mark Ryder
- LIC Automation UK Limited: David Hazlehurst

No directors resigned from the boards of the Company's subsidiaries during 2022/23.

## 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 2023/2024 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
Murray King	1	\$18,000
Matt Ross	25	\$450,000
Corrigan Sowman	1	\$18,000
Alison Watters	1	\$18,000

### B) Share Dealings by Directors

As at 31 May 2023 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:

Director	31 May 2023	31 May 2022
Ben Dickie*	40,865	32,650
Ken Hames	4,000	4,000
Murray King **	136,704	136,704
Matt Ross***	94,544	93,744
Corrigan Sowman	80,488	N/A
Alison Watters	33,576	33,576

\*Includes shares purchased through participation in the Voluntary Investment Scheme and shares compulsorily purchased to meet LIC's Shareholding Requirements.

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

\*\*\*Includes shares compulsorily purchased to meet LIC's Shareholding Requirements.

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.

### F) Participation in third party Firstlight Wagyu scheme

During the year LIC operated a scheme in co-ordination with Firstlight Wagyu (NZ) Ltd wherein participants sold calves to LIC, as an intermediary, for on-sale to Firstlight Wagyu (NZ) Ltd. Directors participating in the scheme during the year were as follows:

Director	Calf Sales Made to LIC
Gray Baldwin	\$67,999
Matt Ross	\$76,035





**RESOLUTION OF DIRECTORS  
DATED 19 JULY 2023 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 2023.

**The grounds for this opinion are:**

1. The principal activity of the Company involves supplying artificial breeding, herd testing, herd recording and other services to transacting Shareholders (as that term is defined in section 4 of the Act). Accordingly, the principal activity of the Company is, and is stated in the Constitution of the Company as being, a co-operative activity (as the term is defined in section 3 of the Act); and
2. Not less than 60 percent of the voting rights attached to shares in the Company are held by transacting Shareholders.

**Spread of Shareholders as at 31 May 2023**

(including treasury stock and nil paid shares)

Size of Shareholding	Number of Shareholders*	Shares Held	% of Total
1 - 999	664	423,849	0.29
1,000 - 1,999	922	1,428,201	0.97
2,000 - 2,999	800	1,954,963	1.32
3,000 - 3,999	593	1,990,142	1.35
4,000 - 4,999	788	3,463,734	2.35
5,000 - 5,999	445	2,461,341	1.67
6,000 - 6,999	402	2,600,652	1.76
7,000 - 7,999	342	2,538,022	1.72
8,000 - 8,999	403	3,402,356	2.30
9,000 - 9,999	269	2,563,926	1.74
10,000 - 14,999	1,059	12,926,069	8.75
15,000 - 19,999	700	12,135,634	8.22
20,000 - 24,999	415	9,256,653	6.27
25,000 - 29,999	305	8,289,219	5.61
30,000 - 34,999	212	6,852,955	4.64
35,000 - 39,999	149	5,539,098	3.75
40,000 - 49,999	204	9,123,678	6.18
50,000 - 99,999	273	18,018,809	12.20
100,000 - 199,999	56	7,497,585	5.08
200,000 - 299,999	13	3,183,598	2.16
300,000 - 499,999	7	2,759,799	1.87
500,000 - 999,999	7	5,439,877	3.68
1,000,000 +	11	23,832,260	16.14
	<b>9,039</b>	<b>147,682,420</b>	<b>100%</b>

\*The number of Shareholders above is based on the number of separate/individual farms. The table below setting out the twenty largest shareholdings, amalgamates Shareholders with multiple farms.

**Twenty Largest Shareholdings as at 31 May 2023**

(including treasury stock and nil paid shares)

Shareholder	Shares held	% of total shares
Trinity Lands Limited	7,320,913	4.96
LIC Treasury Stock	5,337,584	3.61
Schmidt Farms Limited	2,637,432	1.79
David Lockhart Easton & Anthea Clare Easton & RFH Trustees	1,801,430	1.22
Sim Brothers Limited	1,708,358	1.16
Melrose Dairy Limited	1,590,087	1.08
Anglesea Agriculture Limited	1,481,119	1.00
Mark Braden Neil Dewdney, Anne Heather Dewdney & Victoria Ann Dewdney	1,015,099	0.69
Cayuga Limited	1,015,053	0.69
CIP Nominees No 1 Limited (LIC's Employee Share Scheme)	997,021	0.68
Kotare Pastoral Limited	978,858	0.66
Mangatarata Farms Limited	850,000	0.58
Robert Laurentius Johannes Bruin & Annemarie Bruin	782,345	0.53
Christopher John Stark & Graham Carr	718,372	0.49
D B Douglas Limited	616,956	0.42
Pilsen 2021 Limited	616,944	0.42
JD & RD Wallace General Partnership Limited	491,080	0.33
Bishop Farms Oxford Limited	474,572	0.32
Kaimanawa Farms Limited	443,502	0.30
Malrose Properties Limited	439,376	0.30
	<b>31,021,021</b>	<b>21.01</b>

**Credit Rating Status**

LIC currently does not have a credit rating.

The total number of quoted fully paid ordinary shares in the Company was 137,779,275 as at 31 May 2023.

**Substantial product holders**

Based on the Company records and substantial product holder notices provided, as at 31 May 2023, 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 2023	Percentage of quoted fully paid ordinary shares in substantial holding at 31 May 2023
Trinity Lands Ltd	7,313,073	5.3078%
Peter James McBride	7,319,890	5.3128%

LIC understands that Peter James McBride's substantial product holder disclosure is in relation to financial products held by Trinity Lands Limited (7,313,073 fully paid ordinary shares), which is also disclosed above and Crocodile Farm Limited (6,817 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 Limited 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 Limited 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 Limited	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 \$11,597 during the year ended 31 May 2023 (2022: \$14,874).

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:

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;
  - 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 19 July 2023 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, or the issue of Shares from treasury stock.
- d) Shareholders who do not participate will not be diluted or otherwise disadvantaged as no new Shares are being issued under the Dividend Plan;
- e) Participating Shareholders will pay no greater than the higher of:
  - 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.
- f) 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;
- g) 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
- h) 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 Directors and Senior Managers who are eligible and 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 Directors and Senior Managers participate in the Investment Scheme. However, the total costs in the next twelve months is estimated to be in the region of \$11,000.

In relation to the financial assistance provided for the Investment Scheme, the LIC Board resolved on 19 July 2023 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 Directors and Senior Managers a means of acquiring additional shares in LIC through a fixed trading plan, given the risk they will often be information insiders, and without incurring transaction costs which they would otherwise incur;
- b) The additional shares will be acquired by Craigs either through on-market transactions or the issue of Shares by LIC from treasury stock. Participating Directors and Senior Managers will pay the average NZX market price paid by Craigs on market for those Shares.

- c) Participating Directors and Senior Managers will pay a uniform price in relation to a season.
- d) The Investment Scheme will enhance the liquidity in the market for the Shares, providing a more liquid market for both participating Directors and Senior Managers and non-participating Shareholders wishing to trade in LIC shares; and
- e) The Investment Scheme enables LIC to offer eligible Directors and Senior Managers a mechanism to invest in LIC Shares without resulting in unnecessary new capital being raised through the issue of new shares.
- f) The amount of financial assistance is minimal in comparison to the benefits arising out of the Investment Scheme for participating Directors and Senior Managers, non-participating Shareholders and LIC.

#### **C) LIC Employee Share Scheme:**

LIC proposes to provide financial assistance to those employees who elect to participate in the LIC Employee Share Scheme ("Employee Scheme") which from the 1 April 2011 has been managed by 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 \$22,000.

In relation to the financial assistance provided for the Employee Scheme, the Board of LIC resolved on 19 July 2023 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 Shares are being issued under the Employee Scheme;
- d) The additional shares will be purchased through Craigs at the market price.
- e) 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;
- f) The amount of financial assistance is minimal in comparison to the benefits arising out of the Employee Scheme for Shareholders and LIC;

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