

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

For the year ended 31 May 2022



There's always room for improvement





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Key results and position

STATEMENT OF RESULTS FOR THE YEAR

For the year ended 31 May 2022

<i>in thousands of New Zealand dollars</i>	Note	2022	2021
Continuing operations			
Revenue	1	263,182	249,013
Purchased materials		(44,561)	(40,795)
People costs		(108,969)	(103,576)
Depreciation and amortisation	3,4,5	(22,749)	(21,999)
Research and development		(18,184)	(17,124)
Other expenses	10	(35,347)	(33,615)
Net finance costs		(277)	(1,376)
Bull team revaluation	2	(21,674)	(718)
Fair value change in Nil Paid Share receivable	6	1,202	1,200
Profit/(loss) before tax expense from continuing operations		12,623	31,010
Tax expense	9	(2,000)	(7,397)
Profit/(loss) for the year from continuing operations		10,623	23,613
Discontinued operations			
Profit/(loss) after tax expense from discontinued operations	14	16,100	(669)
Profit/(loss) for the year		26,723	22,944
Hedge revaluations	6	124	(134)
Investment revaluations	6	(5)	(195)
Land and buildings revaluations	3,6	4,756	1,443
		4,875	1,114
Comprehensive income for the year		31,598	24,058
<i>Profit from continuing operations per Ordinary Share (excl. treasury stock)</i>		<i>\$0.07</i>	<i>\$0.17</i>
<i>Profit per Ordinary Share (excl. treasury stock)</i>		<i>\$0.19</i>	<i>\$0.16</i>
Supplementary non-GAAP note to the results for the year:			
Profit/(loss) for the year		26,723	22,944
Plus: Bull team revaluation		21,674	718
Tax effect on Bull team revaluation		(6,069)	(201)
Less: Gain on divestment of Automation business	14	(15,449)	-
Less: Fair value change in Nil Paid Share receivable		(1,202)	(1,200)
Underlying earnings		25,677	22,261
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		<i>\$0.18</i>	<i>\$0.16</i>

Key results and position

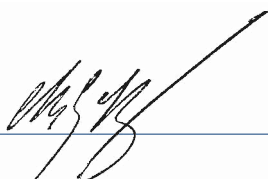
STATEMENT OF POSITION FOR THE YEAR

As at 31 May 2022

<i>In thousands of New Zealand dollars</i>	Note	2022	2021
Cash	14	64,135	18,821
Debtors	8	48,190	42,973
Assets held for sale	14	-	26,471
Other assets	8	26,484	25,042
Nil Paid Shares receivable	6	8,651	13,491
Bull team	2	93,116	114,790
Land, buildings and equipment - owned & leased	3,5	106,426	95,114
Software, goodwill and other intangible assets	4	38,608	44,425
Total assets		385,610	381,127
Creditors	7,14	28,612	24,541
Liabilities held for sale	14	-	2,656
Borrowings	7	-	-
Deferred tax	9	26,262	31,935
Other liabilities	11	37,679	28,750
Total liabilities		92,553	87,882
Net assets		293,057	293,245
Share capital	6	76,737	76,737
Retained earnings	6	169,624	174,687
Other reserves	6	46,696	41,821
Total equity		293,057	293,245

Director

Date: 20 July 2022



Director

Date: 20 July 2022



Key results and position

STATEMENT OF CASH FLOW FOR THE YEAR

For the year ended 31 May 2022

<i>In thousands of New Zealand dollars</i>	Note	2022	2021
Customer receipts	1	261,249	254,989
Supplier payments		(206,181)	(200,765)
Net tax payments		2,125	(13,477)
Other operating cash flows		(63)	(291)
Net operating cash flows	13	57,130	40,456
Software development	4	(6,580)	(7,658)
Net sales/(purchases) of land, buildings and equipment	3	(10,570)	(7,845)
Sale of net assets held for sale	14	35,571	-
Other investment cash flows		(739)	(612)
Net investment cash flows		17,682	(16,115)
Payment of principal portion of lease liabilities		(3,597)	(3,460)
Drawdown/(repayment) of borrowings		-	(1,616)
Investment Share repurchases		-	(1,695)
Nil Paid Share receipts		352	352
Dividends paid		(26,363)	(15,398)
Net financing cash flows		(29,608)	(21,817)
Movement in cash for year		45,204	2,524
Cash at beginning of the year		18,821	16,488
Currency movement on cash holdings		110	(191)
Cash at end of the year		64,135	18,821

Key results and position

STATEMENT OF CHANGES IN POSITION FOR THE YEAR

For the year ended 31 May 2022

<i>In thousands of New Zealand dollars</i>	Note	Share capital	Retained earnings	Other reserves	Total equity
Balance at 1 June 2021		76,737	174,687	41,821	293,245
Profit/(loss) for the year		-	26,723	-	26,723
Dividends paid		-	(32,052)	-	(32,052)
Hedge revaluations		-	-	124	124
Investment revaluations		-	-	(5)	(5)
Land and buildings revaluations	3, 6	-	-	4,756	4,756
Adjustments on divestment		-	266	-	266
Balance at 31 May 2022		76,737	169,624	46,696	293,057
Balance at 1 June 2020 as previously reported		78,432	170,720	41,090	290,242
Impact of SAAS accounting policy change	Accounting policies (v)	-	(878)	-	(878)
Restated balance		78,432	169,842	41,090	289,364
Profit/(loss) for the year		-	22,944	-	22,944
Dividends paid		-	(18,156)	(326)	(18,482)
Hedge revaluations		-	-	(134)	(134)
Investment revaluations		-	-	(195)	(195)
Land and buildings revaluations	3, 6	-	-	1,443	1,443
Acquisition of minority interest in subsidiary		-	57	(57)	-
Investment share repurchases		(1,695)	-	-	(1,695)
Balance at 31 May 2021		76,737	174,687	41,821	293,245

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 2022.

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

These financial statements reflect the impact of the IFRS Interpretation Committee's decisions on accounting for software-as-a-service (SAAS) arrangements, which reduced retained earnings and software intangible assets by \$0.878 million as at 1 June 2020 and 31 May 2021. In all other respects, accounting policies have been applied consistently with prior periods.

Notes to the Financial Statements

1. Business analysis

(i) Operating segments

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

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

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

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

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

The Other segment includes international operations, research & development and support services. Unallocated amounts include personnel costs, other expenses and net finance costs.

Notes to the Financial Statements

1. Business analysis (cont.)

(ii) Geographic analysis

In thousands of New Zealand dollars

2022	New Zealand	Australia	Ireland	United Kingdom	Other	Total
Revenues	242,308	9,494	2,548	3,501	5,331	263,182
Non-current assets	245,406	5,614	907	8,135	-	260,062
2021						
Revenues	229,173	9,115	2,346	3,433	4,946	249,013
Non-current assets	267,136	5,582	563	8,274	-	281,555

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 grant and R&D tax incentives income of \$9.820 million (2021: \$7.273 million).

2. Bull Team

The bull team is the cornerstone asset of LIC's genetics business. The 967 total bulls (2021: 938 bulls) from which the bull team are selected are carried at their fair value, which is based on LIC's modelling of future cash flows from the bulls (a "Level 3 valuation"). Changes in their fair value are reported in profit. The fair value from the bulls is partly dependent on the future sales mix of LIC's genetics products, which is historically strongly correlated to the Farmgate Milk Price paid by Fonterra Co-operative Group. The valuation is also sensitive to a change in the WACC rate used to discount future cash flows and the run off profile of bulls that make up the bull team.

In thousands of New Zealand dollars	2022	2021
Opening balance	114,790	115,508
Bull team revaluation	(21,674)	(718)
Closing balance	93,116	114,790

Key drivers of the model:

Percentage of genomic bulls still in the team from 2-4 years	46-13%	59-13%
Forecasted Fonterra Farmgate Milk Price*	\$7.50 - \$9.60	\$6.60 - \$7.20
WACC annualised post tax rate	7.03% - 7.94%	5.16% - 7.20%
Number of bulls in the team	136	136

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

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

	2022	2021
Genomic run off profile	\$5.8m - average of 12% shift across years 2 & 3	
Impact on demand incorporating effect of reducing the 2022 forecast Farmgate Milk Price by \$1.25 in the short term and \$0.25c in the long term	\$10.8m	\$14.2m
WACC moves 100 basis points	\$2.5m	\$3.6m

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 2022 (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	2022				2021			
	Land	Buildings	Equipment	Total	Land	Buildings	Equipment	Total
Opening balance	35,755	38,870	20,489	95,114	34,265	39,172	21,957	95,394
Additions	-	2,507	8,081	10,588	-	3,755	4,741	8,496
Disposals	-	(5)	(147)	(152)	-	(57)	(240)	(297)
Depreciation	-	(2,133)	(6,228)	(8,361)	-	(1,930)	(6,040)	(7,970)
Revaluation	2,337	3,358	-	5,695	1,490	(238)	-	1,252
Foreign exchange	-	8	21	29	-	(10)	(19)	(29)
Leased assets movement - note 5	-	3,296	217	3,513	-	(947)	758	(189)
Held for sale - note 14	-	-	-	-	-	(875)	(668)	(1,543)
Closing balance	38,092	45,901	22,433	106,426	35,755	38,870	20,489	95,114
Value if carried at cost	11,691	21,399	N/A		11,691	21,030	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	2022				2021			
	Software & IP	Goodwill	Database	Total	Software & IP	Goodwill	Database	Total
Opening balance	31,595	2,330	10,500	44,425	49,932	6,500	10,500	66,932
Additions	6,501	-	-	6,501	7,750	-	-	7,750
Disposals/impairment	(2,278)	-	-	(2,278)	(3,260)	-	-	(3,260)
Amortisation	(10,220)	-	-	(10,220)	(14,194)	-	-	(14,194)
Foreign exchange	162	18	-	180	(64)	(26)	-	(90)
Held for sale - note 14	-	-	-	-	(8,569)	(4,144)	-	(12,713)
Closing balance	25,760	2,348	10,500	38,608	31,595	2,330	10,500	44,425

Notes to the Financial Statements

4. Software and other intangibles (cont.)

At reporting date, software includes \$9.513 million (2021: \$18.155 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

	2022				2021			
	Farm software and herd testing CGU	Farm automation CGU	Other CGU	Total	Farm software and herd testing CGU	Farm automation CGU	Other CGU	Total
LIC database	10,500	-	-	10,500	10,500	-	-	10,500
Goodwill	-	-	2,348	2,348	-	4,144	2,330	6,474
Held for sale - note 14	-	-	-	-	-	(4,144)	-	(4,144)
	10,500	-	2,348	12,848	10,500	-	2,330	12,830

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 0-1.0% (2021: 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 8.0% for the LIC database and Other CGU Goodwill, (2021: 7.2% for the LIC database and 7.2-10.4% for 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 4.4% (2021: 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:

	2022				2021			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Opening Balance	7,533	185	5,868	13,586	9,354	365	5,211	14,930
Depreciation	(1,233)	(166)	(2,362)	(3,761)	(1,271)	(186)	(1,928)	(3,385)
Additions	4,529	249	2,461	7,239	414	-	2,935	3,349
Adjustments/Derecognition	-	5	30	35	(90)	14	(77)	(153)
Held for sale - note 14	-	-	-	-	(874)	(8)	(273)	(1,155)
Closing balance	10,829	273	5,997	17,099	7,533	185	5,868	13,586
<i>Lease terms</i>	<i>2-20 years</i>	<i>2-5 years</i>	<i>3-7 years</i>		<i>2-10 years</i>	<i>2-5 years</i>	<i>3-7 years</i>	

Lease liabilities

Set out below are the carrying amounts of lease liabilities recognised at 31 May 2022 (included in Other liabilities) excluding lease liabilities held for sale:

	2022				2021			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Within 1 year	1,191	138	2,113	3,442	956	101	1,916	2,973
Between 1 to 5 years	3,788	22	4,081	7,891	3,365	46	3,992	7,403
More than 5 years	6,706	-	34	6,740	3,873	-	182	4,055
	11,685	160	6,228	18,073	8,194	147	6,090	14,431

(iii) Lease related amounts in the Statement of Results

	2022				2021			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Depreciation	1,233	166	2,362	3,761	1,271	186	1,928	3,385
Interest expense	403	8	295	706	350	9	254	613
Variable lease payments	-	-	1,274	1,274	-	-	1,117	1,117
Short-term and low-value leases	-	67	-	67	-	75	-	75
Total amount	1,636	241	3,931	5,808	1,621	270	3,299	5,190

The Group had total non-variable cash outflows for leases of \$4.492 million in 2022 (\$4.230 million in 2021).

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 (2021: 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 \$8.651 million (2021: \$13.491 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 5.0% (2021: 4.5%).

(iii) Other reserves and equity

<i>In thousands of New Zealand dollars</i>	Hedge revaluation reserve	Investment revaluation reserve	Land & building revaluation reserve	Non-controlling interests	Other reserves
Balance at 1 June 2021	(66)	4,863	37,024	-	41,821
Profit/(loss) for the year	-	-	-	-	-
Dividends paid	-	-	-	-	-
Revaluations	124	(5)	4,756	-	4,875
Acquisition of minority interest in subsidiary	-	-	-	-	-
Balance at 31 May 2022	58	4,858	41,780	-	46,696
Balance at 1 June 2020	68	5,058	35,581	383	41,090
Profit/(loss) for the year	-	-	-	-	-
Dividends paid	-	-	-	(326)	(326)
Revaluations	(134)	(195)	1,443	-	1,114
Acquisition of minority interest in subsidiary	-	-	-	(57)	(57)
Balance at 31 May 2021	(66)	4,863	37,024	-	41,821

(iv) Bank debt

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

Notes to the Financial Statements

7. Liquidity and interest rate risk

(i) Liquidity risk

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

<i>In thousands of New Zealand dollars</i>	2022				2021			
	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	28,612	-	-	28,612	24,541	-	-	24,541
	28,612	-	-	28,612	24,541	-	-	24,541

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

(ii) Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the Group's results or position. The weighted average effective interest rate paid on borrowings in 2022 was 3.2% (2021: 3.8%). A 1.0% increase in interest rates would increase interest paid and reduce profit after tax by approximately \$0.003 million (2021: \$0.087 million).

8. Debtors and other assets

(i) Debtors

Bad debts of \$0.029 million have been expensed during the year (2021: \$0.070 million), and 98% of trade receivables are not past due (2021: 90%).

(ii) Other assets

<i>In thousands of New Zealand dollars</i>	2022	2021
Inventories	12,368	11,038
Investments	13,261	13,329
Derivatives used for hedging	51	-
Other livestock	804	675
	26,484	25,042

Inventories utilised and expensed during the period amounted to \$27.567 million (2021: \$30.053 million, of which \$7.126 million related to discontinued operations). Inventories written off in 2022 totalled \$0.684 million (2021: \$0.478 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 \$7.975 million (2021: \$8.072 million) and Figured Limited \$3.999 million (2021: \$3.999 million).

Notes to the Financial Statements

9. Tax

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

(i) Tax expense

<i>In thousands of New Zealand dollars</i>	2022	2021
Profit/(loss) for the year from continuing operations	10,623	23,613
Tax expense	2,000	7,397
Profit/(loss) before tax expense from continuing operations	12,623	31,010
Tax at 28% NZ company tax rate	3,534	8,683
Effect of overseas income	(156)	31
Non-deductible items	(1,563)	(1,582)
Adjustments from prior periods	185	265
Tax expense	2,000	7,397
Current tax expense	8,612	9,987
Deferred tax expense	(6,612)	(2,590)
Imputation credits available	16,687	27,181

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

<i>In thousands of New Zealand dollars</i>	As at 31 May 2022	Through Profit/(loss)	Through Other reserves	As at 31 May 2021	Through Profit/(loss)	Through Other reserves	As at 31 May 2020
Bull team & livestock	25,667	(6,117)	-	31,784	(199)	-	31,983
Buildings & equipment	1,308	147	939	222	(986)	(18)	1,226
Intangible assets	1,460	(569)	-	2,029	(911)	-	2,940
Other	(2,173)	(73)	-	(2,100)	(494)	-	(1,606)
Total	26,262	(6,612)	939	31,935	(2,590)	(18)	34,543

10. Other expenses

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

<i>In thousands of New Zealand dollars</i>	2022	2021
Audit of the financial statements	196	216
Tax - compliance services for R&D Tax Credits	287	204
Other assurance work	-	-
	483	420

Notes to the Financial Statements

11. Other liabilities

<i>In thousands of New Zealand dollars</i>	2022	2021
Provisions for employee entitlements	7,521	7,899
Provision for sire proving rebate	2,599	2,670
Provision for tax	8,910	3,214
Lease liabilities - current	3,442	2,973
Lease liabilities - non-current	14,631	11,458
Other	576	536
	37,679	28,750

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 2022.

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>	2022	2021
Remuneration of key Management and Directors	5,280	4,573
Sale of goods and services to key Management and Directors	512	598
Purchases of goods and services from key Management and Directors	274	213

Directors of the Company and their related entities hold 294,950 Ordinary Shares, representing 0.20% of shares on issue (2021: 285,426 Ordinary Shares, representing 0.19%).

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>	2022	2021
Profit/(loss) for the year	26,723	22,944
<i>Adjusted for:</i>		
Depreciation and amortisation on owned assets	18,581	22,164
Bull team revaluation	21,674	718
Lease liability principal repayment (classified as financing activity)	(3,597)	(3,460)
Working capital movements and other non-cash items	(6,251)	(1,910)
Net operating cash flows	57,130	40,456

Notes to the Financial Statements

14. Discontinued operations

On 8 June 2021, LIC announced it had entered into an agreement to divest its automation business for \$38.1 million (with \$3.8 million held in escrow until June 2023 and the remainder paid in cash), subject to customary requirements.

The transaction was completed on 11 June 2021. LIC is providing transitional services to the purchaser until they have fully established operations.

The results for discontinued operations are presented below:

<i>In thousands of New Zealand dollars</i>	2022	2021
Revenue	1,052	17,399
Purchased materials	(264)	(6,693)
People costs	(94)	(4,453)
Depreciation and amortisation	-	(3,551)
Research and development	-	(716)
Other expenses	(626)	(3,014)
Gain on sale of net assets	15,449	-
Net finance costs	232	99
Profit/(loss) before tax expense from discontinued operations	15,749	(929)
Tax expense	351	260
Profit/(loss) for the year from discontinued operations	16,100	(669)
<i>Profit from discontinued operations per Ordinary Share (excl. treasury stock)</i>	<i>\$0.110</i>	<i>\$-</i>

Total gain on sale of net assets of \$15.449 million arose from the sales price of \$38.1 million plus agreed working capital adjustments of \$1.164 million, less value of net assets held for sale of \$23.815 million.

The major classes of assets and liabilities classified as held for sale at 31 May 2021 were as follows:

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

Cash and Creditors in the 2022 Statement of Position include \$3.005 million for balances held in LIC bank accounts on behalf of the purchaser of LIC's Automation business.

Notes to the Financial Statements

14. Discontinued operations (cont.)

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

<i>In thousands of New Zealand dollars</i>	2022	2021
Operating	956	1,094
Investing	35,571	(708)
Financing	-	150
Movement in cash for the year	36,527	536

15. Subsequent events

After 31 May 2022, a dividend of 18.43 cents per Ordinary Share was proposed by the Directors in relation to the 2022 year, or \$26.232 million (2021: 12.51 cents per Ordinary Share, or \$17.808 million).



Independent Auditor's Report

To the shareholders of Livestock Improvement Corporation Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the consolidated financial statements of Livestock Improvement Corporation Limited (the 'Company') and its subsidiaries (the 'Group') on pages 4 to 19:

- i. Present fairly in all material respects the Group's financial position as at 31 May 2022 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 2022;
- The consolidated statements of results, changes in position and cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

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

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

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

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



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$1,350,000 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

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

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

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

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

Carrying Value of Intangible Assets

Refer to Note 4 to the Financial Statements.

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

- Goodwill of \$2.3m, arising from a number of acquisitions; and
- The LIC Animal Database of \$10.5m which is used by the Group to deliver its Herd Testing and Farm Software services.

The two significant cash generating units (CGUs) holding these assets are tested annually 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.

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

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

We also challenged management on whether the market capitalisation of the Group is an indicator of impairment and subsequently used our own valuation specialists to challenge management's assessment of appropriate maintainable earnings and earnings multiple applied in their impairment test.

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

Other information

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

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



Use of this independent auditor's report

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



Responsibilities of the Directors for the consolidated financial statements

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

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



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

A handwritten signature in blue ink, appearing to read 'KPMG'.

Hamilton

20 July 2022



Directors' Report 2021 -22

LIC delivers record dividend to farmer shareholders as co-op continues to drive value on-farm

The LIC Board announces a record result for the 2021-22 financial year driven by increased farmer spend on premium genetics and herd improvement services to breed more efficient cows with a lighter environmental footprint.

Reporting a 15.3% increase in underlying earnings, the farmer-owned co-operative will return \$26.2 million in dividend to shareholders. This equates to 18.43 cents per share with a 18.5% gross yield on the current share price. It will be paid on 19 August.

The Board is pleased to present this result for our farmers, particularly after a year hampered by Covid-19, inflationary pressures and supply challenges.

The Board thanks our farmer shareholders for their ongoing support, many of whom faced similar challenges as us. Delivering value for our farmers is at the centre of everything we do and it's results like this that enable us to do just that – through our herd improvement products

and services, a solid dividend, and, importantly, the right R&D investment to keep their herds profitable and sustainable into the future.

Summary of financials

- Total Revenue from Continuing Operations: \$263.2 million (up 5.7%)
- Net Profit After Tax (NPAT): \$26.7 million (up 16.5%)
- Underlying Earnings: \$25.7 million (up 15.3%)
- Strong balance sheet, no debt at year-end and total assets \$385.6 million (up 1.2%)
- Dividend: \$26.2 million total, or 18.43c per share
- R&D investment: \$18.2 million or 6.9% of revenue (up 6.2% from \$17.1 million)

This result is driven by an increasing number of farmers opting for the co-op's premium bull teams to breed high genetic merit cows which produce more milk, more efficiently - resulting in a lower environmental footprint per kilogram of milksolid produced.

The dairy industry needs to keep evolving to meet the challenges posed by climate change. Consumers expect a more sustainable approach to farming and this result reaffirms our farmers are well dialled into this.

The production efficiency of every cow in our national dairy herd has never been more important; farmers know that all cows aren't created equal and they are investing in solutions to breed the best cows, faster.

These breeding decisions will serve them well into the future to build a more profitable and sustainable dairy sector and meet climate goals.

During the 2021-22 year, 71% of fresh semen straws used for breeding replacements were from LIC's premium bull teams (2.1 million straws), up from 60% the year prior (1.8 million straws). These teams utilise younger bulls, selected using genomic DNA technology so they can be made available to farmers earlier and fast track the rate of genetic gain on-farm.

The co-op has invested heavily into genomics over the last 30 years and new research has confirmed farmers are reaping the rewards of this now.

Long term users of LIC genetics have almost doubled the speed of improvement in their herds over the last decade. They are not only breeding genetically superior cows which are more emissions efficient, they're also breeding them at a much faster rate and genomics is the key contributor to this.

We don't need to milk more cows, we just need to milk the best cows and the Board is really pleased that our farmers are making solid progress in this space.

In other business activity, orders for sexed semen almost doubled from the previous year, exceeding 200,000 straws for the first time. International exports also saw an increased demand for sexed semen, while overall straws numbers sent offshore remained steady on the year prior.

DNA verification tests increased (up 15%), as did LIC's range of animal health tests (up 21%), with a notable increase in Johne's disease testing with close to one million samples tested (up 28%). The number of animals recorded in MINDA, LIC's herd management system, also remained steady, as did herd testing with a modest increase in total samples processed, however more farmers are using the Co-op's EZ Link devices to help simplify and speed up the herd testing process (up 4%).

During the year the co-op invested \$18.2 million into R&D, up from \$17.1 million the year prior, maintaining its position as one of the largest private investors in R&D at 6.9% of revenue.

A large proportion of this investment was directed to the co-op's large-scale methane trial, with CRV and funding support from the New Zealand Agricultural Greenhouse Gas Research Centre, which is aimed at discovering a genetic link for methane production to ultimately enable farmers to breed cows that emit less methane.

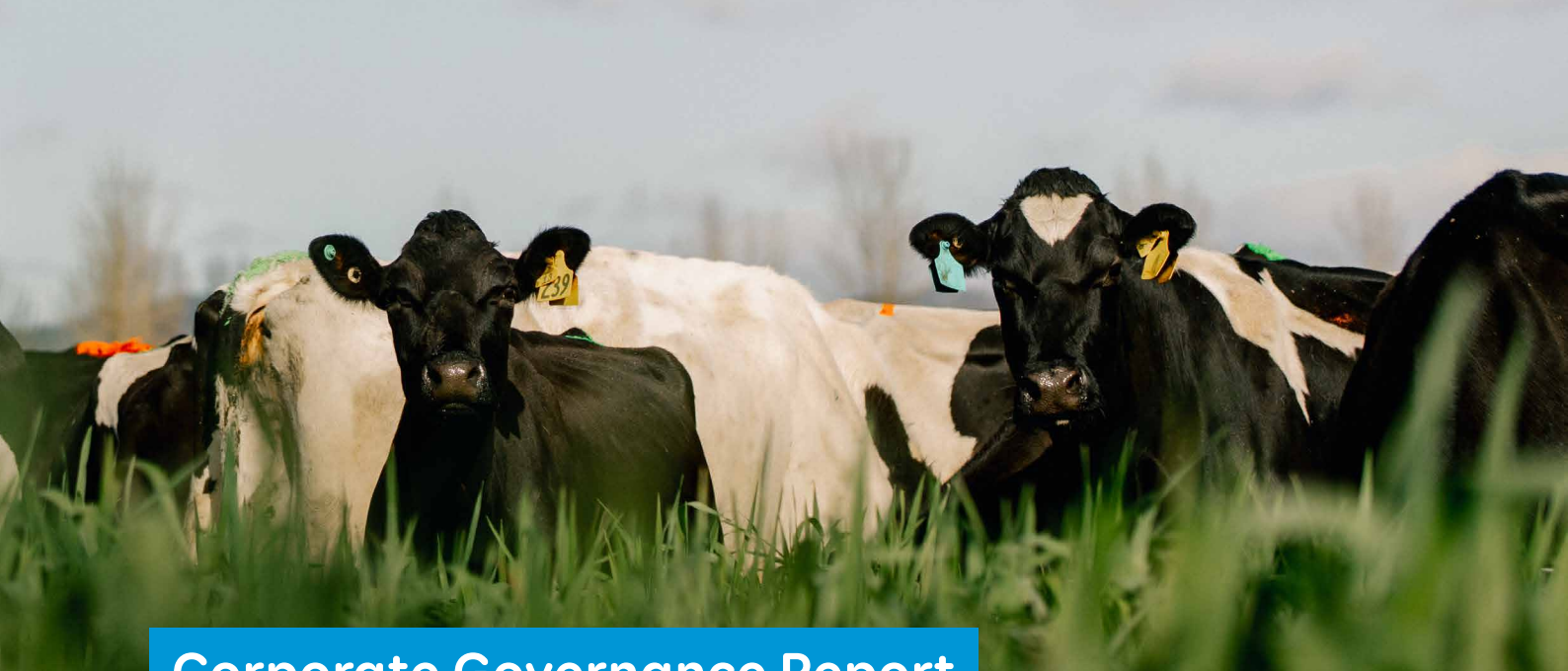
The trial has been measuring feed intake and methane emissions from 300 young bulls and results from this phase are expected to be released later this year.

Other key events during the year included the completion of the sale of the automation business to MSD Animal Health, which then resulted in the co-op's first special dividend payment to partially distribute the sale funds, and the appointment of a new Chief Executive, David Chin, who took over the reins in January.

Outlook

LIC expects underlying earnings in 2022-23 to be in the range of \$20-26 million, assuming no significant climate event or milk price change takes place between now and then, nor any major impacts from M. bovis or Covid-19.

A key focus for the year ahead remains on delivering to the three commitments in the co-op's strategy - operational excellence, faster genetic improvement and software reliability and performance. The co-op's performance against these commitments during the 2021-22 year will be reported on at its Annual Meeting in October.



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). In this section of the 2022 Annual Report, we report against the Principles and Recommendations of the NZX Corporate Governance Code (the NZX Code) and the extent that LIC has followed the NZX Code’s recommendations. This statement is current to 31 May 2022 and has been approved by the Directors of LIC.

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

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

- Constitution

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 (<https://www.lic.co.nz/about/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 responsibility and include provisions for how the Company will operate. The structure of the Board and its governance arrangements are set out in the Company's Constitution and in the Board's written Charter which outlines the Board and Management's roles and responsibilities. The Board is responsible for the direction and control of LIC's activities. It is also committed to the guiding values of the Company.

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.

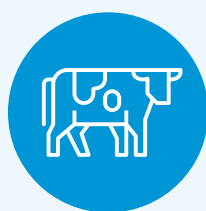
In 2021 the Board refined LIC's business strategy and purpose - to deliver superior genetics and technological innovation to help shareholders sustainably farm a profitable animal. Value for our farmer shareholders is at the heart of our strategy.

LIC will drive value, innovate and deliver a positive impact for customers and shareholders by focusing on the following:



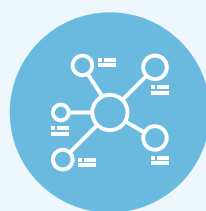
Our Farmers

Deepen our understanding of the current and future needs of all of our farmers.



Animal

Most sustainable & efficient animal. Highest value products.



Digital & Data

Modernising the animal data & digital capabilities.



Innovation

Research & development. Responsive innovation.



LIC's strategy makes three commitments to farmers:

<p>1</p> <p>Operational Excellence</p> <p>LIC commits to getting the basics right and delivering for farmers, on time, every time.</p>	<p>2</p> <p>Faster Genetic Improvement</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>3</p> <p>Software Reliability and Performance</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 (<https://www.lic.co.nz/about/our-strategy/>)

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

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

Board composition

The Board is comprised of six Elected and three Appointed Directors. The 2020 changes to the governance of LIC 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), Gray Baldwin, Ben Dickie, Ken Hames, Matt Ross 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, is included 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 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. The election of Directors in 2022 will see the final step of the transition plan approved by shareholders in 2020 when they voted in favour of reducing the number of Elected Directors from seven to six and the number of regions from four to two.

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.

Candace Kinser was due to retire by rotation in October 2021 and sought re-appointment. Her appointment as an Appointed Director was ratified by shareholders at the 2021 Annual Meeting for a further term of approximately three years.

In this year's Director elections, and under the transitional arrangements put in place as part of the governance and representation changes introduced in 2020, three North Island Directors, Gray Baldwin, Ben Dickie and Alison Watters, are due to retire by rotation at the Annual Meeting. Gray Baldwin has decided, after ten years on the LIC Board, to retire while Ben Dickie and Alison Watters are seeking re-election for the two North Island vacancies. In addition, a third Director is to be sought for the South Island this year, thereby completing the transitional arrangements referred to above.

The elections are timed to coincide with the 2022 Annual Meeting.

Appointed Director, Tim Gibson is due to retire by rotation in October 2022 and, with the support of the Board, will be seeking ratification of his re-appointment for a further term of three years at the 2022 Annual Meeting.

Meetings

The Board met eight times in 2021/22 with three additional strategy days. A further six additional meetings of the Board were held to receive operational updates on the ongoing impact of Covid-19 on LIC, consider the divestment of LIC's automation business and consider the need for a Board sub-committee on LIC's contribution towards 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	8	8	6	6	3	3
Ben Dickie	8	8	6	5	3	3
Tim Gibson	8	8	6	6	3	2
Ken Hames	8	8	6	5	3	3
Sophie Haslem	8	8	6	4	3	3
Murray King	8	8	6	6	3	3
Candace Kinser	8	7	6	5	3	3
Matt Ross	8	8	6	6	3	3
Alison Watters	8	8	6	6	3	3

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 when Covid-19 restrictions have allowed.

The Chair revises development plans for each of the Directors. 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 engaged in 2021 to undertake a formal, independent review of the performance of the Board, individual Directors and Board committees. Their findings were shared with the Board in September 2021. The Board was

found to be operating effectively and specific areas for further development have been 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 with the exception of Gray Baldwin, who may not be perceived as independent due to his role as a Director of Trinity Lands Limited, LIC's largest Shareholder.

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

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

In addition, to ensure appropriate management where necessary, the LIC Board Charter sets out an exception to this whereby the Board may appoint a

Director to assume the post of CE concurrently on a temporary basis when the post of CE is vacant, for a period of no longer than six months. This can be extended, only where the position of CE is still vacant for a further maximum period of six months. At the termination of that further period, that Director shall resign from the Board.



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

Committees

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

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

Audit, Finance & Risk Committee

A Sub-Committee of the Board, the Audit, Finance & Risk Committee ensures the Company complies with its audit, financial and risk management responsibilities. It operates under a written charter, which is available on the LIC website. The Committee is chaired by Appointed Director Sophie Haslem with the other members being Murray King, Gray Baldwin, Ben Dickie and Ken Hames. A majority of 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 2021/22.

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 Murray King, Matt Ross 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 2021/22. Two special meetings of the Committee were also held to discuss out of round performance payments and the Board and Board Chair succession.

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 did not meet in 2021/22.

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 nine times in 2021/22, including three meetings with members of DairyNZ and/or New Zealand Animal Evaluation Limited (NZAEEL).

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 is a Board priority that discussions with DairyNZ and NZAEEL reflect this.





Board Committee attendance:

	Audit, Finance & Risk Committee		Remuneration & Appointments Committee				Disclosure Committee		NZ Animal Evaluation Committee	
	Held	Attended	Held	Attended	Special		Held	Attended	Held	Attended
No of meetings										
Gray Baldwin	6	6	-	-	-	-	-	-	-	-
Ben Dickie	6	6	-	-	-	-	-	-	-	-
Tim Gibson	-	-	4	4	2	1	-	-	9	8
Ken Hames	6	6	-	-	-	-	-	-	-	-
Sophie Haslem	6	6	-	-	-	-	-	-	-	-
Murray King	6	6	4	4	2	2	-	-	9	9
Candace Kinser	-	-	-	-	-	-	-	-	-	-
Matt Ross	-	-	4	4	2	2	-	-	9	9
Alison Watters	-	-	4	4	2	2	-	-	9	9

Technology Advisory Board

In addition to the above Committees, Appointed Director Candace Kinser chaired four meetings of LIC's Technology Advisory Board during 2021/22. 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.

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.

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

Financial reporting

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

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

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

In September 2021 LIC published its first standalone sustainability report. This report was prepared in accordance with the core option of the Global Reporting Initiative (GRI) Standards and is in line with our commitments as members of the Climate Leaders Coalition and the Sustainable Business Council. The Sustainability Report is the start of LIC's integrated reporting journey.

Diversity and Inclusion

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

As at the 2021/22 year-end, members of the Board and Senior Leadership Team self-identified as follows:

	2022			2021		
	M	F	GD	M	F	GD
LIC Board	6	3	-	6	3	-
LIC Senior Leadership Team	5	2	-	6	2	-

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

LIC's staff-led Diversity 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

Committee members have continued to undertake training on "creating an inclusive work environment" and have been active in engaging and educating staff. A variety of diversity and inclusion related topics, information and events have been presented to staff and a regular newsletter is now being produced which highlights specific cultural and international events and celebrations.

In September 2021 Te Wiki o Te Reo Māori was celebrated across LIC and staff were actively encouraged to take part, including by joining the Māori Language Moment run by the Māori Language Commission. As part of our ongoing commitment to Te Reo Māori, initial discussions have been held with an external provider to start a programme of work at LIC with scoping due in the coming financial year.

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.

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 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 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.

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 Honoraria Committee tasked with considering and recommending to Shareholders the form and amount of fees paid to LIC's Directors. The Honoraria Committee is made up of between two and four Shareholders, elected by their fellow Shareholders. The Honoraria Committee's terms of reference are on the LIC website. LIC does not have a directors' remuneration policy, relying instead on the Honoraria 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 \$669,600 was approved at the meeting held in October 2019.

Directors of the Company received the following remuneration for the twelve months ending 31 May 2022:

In thousands of New Zealand dollars.

	Board	AFRC	Rem	TAB	Other	Total Fees
M King	124					124
G Baldwin	54					54
B Dickie	54					54
T Gibson	54		13		5 *	72
K Hames	54					54
S Haslem	54	20				74
C Kinser	54			13		67
M Ross	54					54
A Watters	54					54
						607

**A discretionary payment for additional work done in connection with the recruitment of the CE*



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 and any further actual and reasonable expenses incurred while on LIC business. 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 2022:

In thousands of New Zealand dollars.

	Fees
E Ruiz	4
	4

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

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

- Overall financial performance
- Organisational health (target to be a top quartile organisation)
- Customer delivery (target to achieve consistent positive movements in customer Net Promoter Score)
- Delivery of strategy and key projects

The CE's remuneration package 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 2021 to 31 May 2022 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	63	2	65
110,000 - 119,999	38	4	42
120,000 - 129,999	25	1	26
130,000 - 139,999	19	1	20
140,000 - 149,999	20	1	21
150,000 - 159,999	10	1	11
160,000 - 169,999	8	-	8
170,000 - 179,999	1	2	3
180,000 - 189,999	3	-	3
190,000 - 199,999	4	-	4
200,000 - 209,999	3	-	3
210,000 - 219,999	7	1	8
220,000 - 229,999	3	-	3
230,000 - 239,999	2	-	2
240,000 - 249,999	3	-	3
250,000 - 259,999	4	-	4
280,000 - 289,999	-	1	1
290,000 - 299,999	1	-	1
320,000 - 329,999	1	-	1
340,000 - 349,999	1	-	1
350,000 - 359,999	1	-	1
370,000 - 379,999	-	1	1
400,000 - 409,999	1	-	1
490,000 - 499,999	2	-	2
580,000 - 589,999	1	-	1
1,370,000 - 1,379,999	-	1	1
	221	16	237

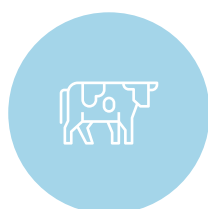
NZX Code Principle 6, Risk Management: Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

Managing Risk

LIC has a risk management framework in place to identify, oversee, manage and control risk. LIC's risk management framework fosters improved ownership of risk identification and management across all levels of the business. Key risk indicators provide management with a heat map of any risks requiring increased focus. LIC's risks status

is 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 mitigations reviewed periodically by the Committee.

LIC's risk categories include:



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 technology 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, licenses, standards, NZX continuous disclosure requirements or OMARs result in restrictions, penalties, or loss.



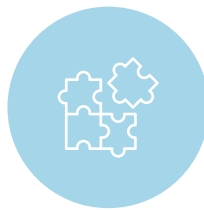
People & Capability

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 are the following updates on LIC's key risk categories:

Health and safety

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

LIC uses a Total Reportable Incident Rate (TRIR) to measure health and safety performance against lag indicators: notifiable events, lost time injuries, medical treatment claims and traffic infringements. The rate is based on the number of incidents per 100 full-time equivalent employees. The TRIR for 2021/22 was 2.90, a decrease from 3.49 in 2020/21.

There were two events notified to Worksafe in 2021/22 (compared to one in 2020/21).

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

We also focused on enhancing near miss reporting and the wellbeing of our people through the introduction of the five ways to wellbeing programme, which centres on connecting,

being active, learning, giving, and taking notice. A mental health for managers training module was rolled out in 2021/22 and a Wellbeing and Recovery Advisor was employed to progress wellbeing outcomes at LIC.

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

Disruption to production or service

The Company's ability to provide sufficient quality semen during a season relies on a number of factors, including the maintenance and operation of key equipment, staff 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. Business continuance plans are also in place and reviewed and tested regularly.

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 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.

Financial Risk

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

Bio-security and animal health

Quarantine procedures are in place in all LIC-controlled locations with 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. Regular internal audits also take place across the business.

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.

The environment

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

LIC is a member of the Climate Leaders Coalition and the Sustainable Business Council. LIC measures and publicly reports our greenhouse gas emissions, and has set a public, science based, emissions reduction target, and is working with our suppliers to reduce their emissions as well as building sustainability into our purchasing decisions. LIC continues to offer farmers the tools and genetics they need to breed more efficient cows and drive sustainability improvements on-farm. Our Resilient Dairy programme is a great example of the 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. The Board is satisfied that there is no relationship between the Auditor and LIC or any related person at this time, which could compromise the Auditor's independence. The Board also obtains confirmation of independence formally from the Auditor.

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

The External Auditor Independence Policy sets out restrictions on non-audit work that can be performed by the auditor and the Audit, Finance & Risk Committee is required to approve all engagements with the auditor.

The policy requires rotation of the key audit partner every five years, a requirement we are fully compliant with. LIC's external auditor attends its annual shareholder meeting each year to answer questions from shareholders in relation to the audit.

Internal Audit

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

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

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

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

LIC provides half-year and annual reporting to the NZX to keep Shareholders informed and discloses information to the NZX to meet its continuous

disclosure obligations as required. The Company communicates with Shareholders through its Annual Report, half-year financial statements and at Shareholder meetings, as well as through a range of media channels on topics which it believes will be of interest to Shareholders.

We encourage all Shareholders to receive communications electronically and provide hard copies of information as and when required.

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

This year the LIC Annual Meeting will be held both virtually and in person on Thursday 20 October 2022 at 12pm at the Hotel Distinction Coachman, Palmerston North and online (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 2022.

Statutory Requirements

Entries in the interests register

Directors

All Elected Directors are customers and Shareholders of Livestock Improvement Corporation Limited and purchase products and services for their farming operations on an ongoing basis.

Directorships and Memberships

Gray Walter Baldwin:

Director of:

- Farmlands Co-operative Society Limited (approx. 13% shareholder in FarmIQ)
- Trinity Lands Limited
- Longview Trust Board (shareholder in Trinity Lands Limited)
- Wuppertal Farming Limited

Benjamin John Dickie:

Director of:

- Taranaki Veterinary Centre Limited

Timothy Dunlop Gibson:

Director of:

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

Kenneth Charles Hames:

Chair of

- Extension 350
Duke of Edinburgh Award NZ

Sophie Haslem:

Director of:

- Centreport Limited and subsidiaries:
 - Centreport Captive Insurance Limited
 - Centreport Properties Limited
- Kordia Group Limited
- Meteorological Service of New Zealand Limited (Chair)
- Ngāi Tahu Holdings Corporation Limited
- Oyster Property Group Limited (Ceased 31 March 2022) and subsidiaries:
 - Oyster Industrial Limited (Ceased 31 March 2022)
 - Oyster Management Limited (Ceased 31 March 2022)
 - Oyster Property Holdings Limited (Ceased 31 March 2022)
 - Tauranga Crossing GP Limited (Ceased 31 March 2022)
- Payments NZ Limited
- Rangitira Limited

Shareholder of:

- CH4 Global Inc

Murray Grant King:

Director of:

- Appleby Limited
- Callura Dairies Management Limited (Chair)
- Cawthron Institute
- Dry Steam Irrigation Company Limited
- Long Plantation Investments Limited

Director and Shareholder of:

- New Zealand Dairy Dessert Company Limited
- Waimea Irrigators Limited (Chair)
- Waimea Community Dam Limited

**Candace Nicole Kinser:****Director of:**

- Cancer Society of New Zealand Incorporated
- Eastland Group Limited and subsidiaries:
 - Eastland Generation Limited
 - Eastland Network Limited
 - Eastland Port Limited
 - Gisborne Airport Limited
- Helius Therapeutics Limited (Chair)
- New Zealand Health Partnerships Limited
- Punakaiki Fund Limited
- WEL Networks Limited (Ceased 22 June 2021)

Chair of:

- Cancer Society of New Zealand, Auckland Northland Division Incorporated
- Advisory Board of Superb Herb Company Limited

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

Alison Jane Watters:**Director of:**

- Agriculture Resources Limited
- AsureQuality Limited (Chair)
- BV-AQ (Singapore) Holding Pte Limited (Ceased 1 May 2022)
- High-Value Nutrition (National Science Challenge)
- Meteorological Service of New Zealand Limited
- Totally Vets Limited

Shareholder of:

- Aginvest Holdings Limited (27.66%). Aginvest owns MyFarm Limited which in turn has a 18.84% holding in Figured 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**Director of:**

Eurogene AI Services (Ireland) Limited

David James Hazlehurst**Director of:**

Figured Limited



The Directors of the Company's subsidiaries as at 31 May 2022 are set out below:

- LIC Agritechnology Company Limited: Murray King, Gray Baldwin, Ben Dickie, Tim Gibson, Ken Hames, Sophie Haslem, Candace Kinser, Matt Ross and Alison Watters.
- Livestock Improvement (New Zealand) Corporation Limited: David 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 and David Hazelhurst
- 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

During 2021/22 the Directors named below resigned from the boards of the Company's subsidiaries as follows:

- **Andrea Black:** resigned from Agrigate GP Limited
- **Simon O'Connor:** resigned from Beacon Automation Pty Limited, Livestock Improvement Pty Limited, Farmkeeper Pty Limited and Overland Corner Holdings Pty Limited
- **Wayne McNee:** resigned from Livestock Improvement (New Zealand) Corporation Limited, LIC Automation Limited (now LIC Ventures No.1 Limited), LIC Ventures No.3 Limited, Agrigate GP Limited, Livestock Improvement Corporation (UK) Limited, LIC Ireland Limited, Livestock Improvement Automation Limited and LIC Automation UK Limited

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 2022/2023 season. Directors participating in the scheme include:

Director	Potential Calf Sales	Potential Value
Murray King	1	\$14,000
Matt Ross	21	\$294,000

B) **Share Dealings by Directors**

As at 31 May 2022 the Directors other than the Appointed Directors (either in their own names and/or in the name(s) of their dairy farming entities) as qualifying users of LIC's products and services are holders of, or control the exercise of the right to vote or the acquisition or disposal of, the following shares:

	31 May 2022	31 May 2021
Director	Ordinary Shares	Ordinary Shares
Gray Baldwin	14,276	14,276
Ben Dickie*	32,650	23,922
Ken Hames **	4,000	3,204
Murray King ***	136,704	136,704
Matt Ross	93,744	93,744
Alison Watters	33,576	33,576

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

** K Hames farming interests include Ahipara Agri Limited and includes 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

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	\$208,142
Matt Ross	\$57,479

RESOLUTION OF DIRECTORS DATED 20 JULY 2022 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 2022.

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 2022

(including treasury stock and nil paid shares)

Size of Shareholding	Number of Shareholders*	Shares Held	% of Total
1 - 999	720	461,276	0.31%
1,000 - 1,999	997	1,535,071	1.04%
2,000 - 2,999	817	2,002,538	1.36%
3,000 - 3,999	657	2,223,279	1.51%
4,000 - 4,999	757	3,338,193	2.26%
5,000 - 5,999	462	2,549,306	1.73%
6,000 - 6,999	400	2,593,466	1.76%
7,000 - 7,999	347	2,578,004	1.75%
8,000 - 8,999	388	3,277,502	2.22%
9,000 - 9,999	283	2,695,924	1.83%
10,000 - 14,999	1,084	13,264,713	8.98%
15,000 - 19,999	724	12,567,407	8.51%
20,000 - 24,999	433	9,658,967	6.54%
25,000 - 29,999	315	8,568,484	5.80%
30,000 - 34,999	218	7,047,373	4.77%
35,000 - 39,999	153	5,679,312	3.85%
40,000 - 49,999	220	9,789,268	6.63%
50,000 - 99,999	279	18,436,732	12.48%
100,000 - 199,999	55	7,378,648	5.00%
200,000 - 299,999	13	3,197,058	2.16%
300,000 - 499,999	6	2,323,681	1.57%
500,000 - 999,999	8	5,593,035	3.79%
1,000,000 +	9	20,923,183	14.17%
	9,345	147,682,420	100%

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

Twenty Largest Shareholdings as at 31 May 2022

(including treasury stock and nil paid shares)

Shareholder	Shares held	% of total shares
Trinity Lands Limited	7,328,913	4.96%
LIC Treasury Stock	5,337,584	3.61%
Schmidt Farms Limited	2,391,133	1.62%
Sim Brothers Limited	1,650,682	1.12%
Melrose Dairy Limited	1,600,087	1.08%
Anglesea Agriculture Limited	1,424,587	0.96%
David Lockhart Easton & Anthea Clare Easton & RFH Trustees	1,261,080	0.85%
Kotare Pastoral Limited	978,858	0.66%
CIP Nominees No 1 Limited (LIC's Employee Share Scheme)	909,489	0.62%
Mark Braden Neil Dewdney, Anne Heather Dewdney & Victoria Ann Dewdney	774,308	0.52%
Christopher John Stark & Graham Carr	718,372	0.49%
Robert Laurentius Johannes Bruin & Annemarie Bruin	696,078	0.47%
Pilsen 2021 Limited	616,944	0.42%
Cayuga Limited	588,790	0.40%
D B Douglas Limited	582,756	0.39%
Mangatarata Farms Limited	550,000	0.37%
Bishop Farms Oxford Limited	474,572	0.32%
Malrose Properties Limited	439,376	0.30%
JD & RD Wallace General Partnership Limited	436,220	0.30%
Landcorp Farming Limited	419,540	0.28%
	29,179,369	19.76%

Credit Rating Status

LIC currently does not have a credit rating.

The total number of quoted fully paid ordinary shares in the Company was 133,136,908 as at 31 May 2022.

Substantial product holders

Based on the Company records and substantial product holder notices provided, as at 31 May 2022, 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 2022	Percentage of quoted fully paid ordinary shares in substantial holding at 31 May 2022
Trinity Lands Ltd	7,308,089	5.4892%
Peter James McBride	7,313,432	5.4932%

LIC understands that Peter James McBride's substantial product holder disclosure is in relation to financial products held by Trinity Lands Limited (7,308,089 fully paid ordinary shares), which is also disclosed and Crocodile Farm Limited (5,343 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 totaling \$14,874 during the year ended 31 May 2022 (2021: \$14,048).

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 20 July 2022 that LIC should provide the financial assistance referred to above ("Dividend Plan Financial Assistance"), for the period of 12 months commencing 10 working days after sending this disclosure to Shareholders, and that the giving of

the Dividend Plan Financial Assistance is in the best interest of LIC and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the Dividend Plan Financial Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

- a) The Dividend Plan Financial Assistance enables LIC to provide Shareholders with an efficient means of acquiring additional Shares in LIC without incurring transaction costs which they would otherwise incur;
- b) The Dividend Plan Financial Assistance is available to all eligible Shareholders, giving equal opportunity to participate in the benefits of the Dividend Plan;
- c) The additional Shares will be acquired by Craigs through on-market transactions, by the transfer of LIC shares held as treasury stock and/or subscribing for new shares (on behalf of the Shareholder).
- d) Participating Shareholders will pay no greater than the higher of:
 - i) the volume-weighted average price of shares trading on the NZX market during the 20 Business Days prior to the date that the Board determines to issue shares from treasury stock; and
 - ii) the average price paid by Craigs on behalf of Participants for on-market acquisitions.
- e) The Dividend Plan will enhance the liquidity in the market for the Shares, providing a more liquid market for both participating and non-participating Shareholders wishing to trade in LIC Shares;
- f) The Dividend Plan enables LIC to offer Shareholders a mechanism to reinvest dividends in Shares without resulting in unnecessary new capital being raised through the issue of new shares; and
- g) The amount of Dividend Plan Financial Assistance is minimal in comparison to the benefits arising out of the Dividend Plan for Shareholders and LIC.

B) Voluntary Investment Scheme:

LIC proposes to provide financial assistance to those eligible Shareholders who elect to participate in the Voluntary Investment Scheme ("Investment Scheme") by agreeing to pay to the Guardian Trust Company of New Zealand Limited ("Guardian Trust"), as the Approved Holding Entity, the services and administration fees and brokerage and commission costs incurred for the purposes of the Investment Scheme. Craigs has been appointed as the Broker to purchase Ordinary Shares on the NZX market for the purposes of the Investment Scheme, and the moneys paid by LIC to Guardian Trust as Approved Holding Entity will include the administration fee, brokerage and commission costs of Craigs.

LIC is required to make disclosures to all Shareholders in respect of this financial assistance. The exact costs depends upon the extent to which eligible Shareholders participate in the Investment Scheme. However, the total costs in the next twelve months is estimated to be in the region of \$11,000.

In relation to the financial assistance provided for the Investment Scheme, the LIC Board resolved on 20 July 2022 that LIC should provide the financial assistance referred to above ("VIS Assistance"), for the period of 12 months commencing 10 working days after sending this disclosure to Shareholders, and that the giving of the VIS Assistance is in the best interest of LIC and is of benefit to Shareholders not receiving that financial assistance; and that the terms and conditions under which the VIS Assistance is given are fair and reasonable to LIC and to the Shareholders not receiving that financial assistance. The grounds for the Board's conclusions are:

- a) The VIS Assistance enables LIC to provide eligible shareholders with a means of acquiring additional shares in LIC through a fixed trading plan, given the risk they will often be information insiders, without incurring transaction costs which they would otherwise incur;
- b) The VIS Assistance is a method of aligning of eligible shareholders with the interests of Company by providing a legally compliant way of acquiring LIC shares by individuals who may often be information insiders;

- c) The additional shares will be acquired by Craigs either through on-market transactions or from LIC (whether by way of a share issuance or by the transfer of treasury stock).
 - d) Participating Shareholders will, as far as is practicable, pay a uniform price in relation to a season.
 - e) The Investment Scheme will enhance the liquidity in the market for the shares, providing a more liquid market for both participating and non-participating Shareholders wishing to trade in LIC shares; and
 - f) The Investment Scheme enables LIC to offer eligible shareholders a mechanism to invest in LIC shares without resulting in unnecessary new capital being raised through the issue of new shares.
- a) The Employee Scheme is a valuable addition to the benefits available to the employees of LIC and will assist in retaining them as valuable staff;
 - b) The Employee Scheme is a method of aligning the interests of employees with the interests of Shareholders and is an effective means of motivating future performance of the employees;
 - c) Shareholders will not be diluted or otherwise disadvantaged as no new Ordinary Shares are being issued under the Employee Scheme;
 - d) The Employee Scheme will enhance the liquidity in the market for the Shares, providing a more liquid market for Shareholders wishing to trade in LIC Shares;
 - e) The amount of financial assistance is minimal in comparison to the benefits arising out of the Employee Scheme for Shareholders and LIC.

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 20 July 2022 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:

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