# LEADERSHIP THROUGH INNOVATION

## Genus plc

Annual Report 2016

# A World Leader in Animal Genetic Improvement

Global demand for pork, beef and milk continues to increase, driven by urbanisation, population growth and rising incomes. Our genetics enable farmers to meet this demand with quality and efficiency. We are world leaders in our markets, with pioneering technology and a deep understanding of our customers' needs.



# 2016 Highlights

**Group Revenue**
£m

| | £m |
|---|---|
| 2016 | 388.3 |
| 2015 | 398.5 |
| 2014 | 372.2 |
| 2013 | 345.3 |
| 2012 | 341.8 |

**Adjusted Profit Before Tax**
£m

| | £m |
|---|---|
| 2016 | 49.7 |
| 2015 | 46.6 |
| 2014 | 39.3 |
| 2013 | 42.5 |
| 2012 | 43.7 |

**Statutory Profit Before Tax**
£m

| | £m |
|---|---|
| 2016 | 60.9 |
| 2015 | 57.8 |
| 2014 | 38.2 |
| 2013 | 33.4 |
| 2012 | 51.6 |

**Adjusted Basic EPS**
Pence

| | Pence |
|---|---|
| 2016 | 60.7 |
| 2015 | 56.8 |
| 2014 | 46.5 |
| 2013 | 49.1 |
| 2012 | 50.0 |

**Dividend Per Share**
Pence

| | Pence |
|---|---|
| 2016 | 21.4 |
| 2015 | 19.5 |
| 2014 | 17.7 |
| 2013 | 16.1 |
| 2012 | 14.6 |

## Financial Highlights[1]

- Adjusted profit before tax up 7% to £49.7m (up 10% in constant currency), driven by strong performances in Genus PIC and Genus Asia, particularly China
- Statutory profit before tax up 5% to £60.9m includes a pension related exceptional credit of £44.2m (2015: £0.4m) and a reduction in the value of biological assets £17.1m (2015: £24.9m increase)
- Adjusted basic earnings per share up 7% to 60.7p (up 10% in constant currency) and statutory basic earnings per share up 23% to 81.1p reflecting a lower statutory tax rate on adjusting items
- Revenue of £388.3m, reduced 3% due to lower bovine volumes in tough dairy markets, and lower porcine by-product and up-front sales. Growth of 17% (14% in constant currency) in strategically important royalty revenues
- Solid cash conversion as expected of 88% (2015: 107%) after two years of exceptional performance above 100%
- After tax return on invested capital of 19.1% (2015: 21.7%), impacted by year end currency translation on our US asset base following the recent strengthening of the US Dollar against Sterling
- Dividend increased by 10% to 21.4p, well covered by adjusted earnings at 2.8 times (2015: 2.9 times)

## Operational and Strategic Highlights

- Continued volume growth of 4% in porcine, however bovine volumes 6% lower in tough dairy markets
- Very strong results across Asia, more than doubling operating profit including joint ventures
  - China delivered over £6m in additional operating profit, benefiting from market tailwinds and strong product performance
  - Signed three new large porcine royalty customers in China and a commercial multiplier agreement with Yunnan Shennong
- Strong profit growth in Genus PIC of 9% in constant currency, with growth in royalty volumes and revenues
- Genus ABS had a challenging year in very difficult dairy markets and took action to reduce costs, manage margins and improve pricing; however, profits were 16% lower in constant currency. The pace of strategic change was accelerated through:
  - In Vitro Brasil S.A. ('IVB'), our world leading bovine in vitro fertilisation ('IVF') business focused on driving genetic improvement via embryos, was rapidly integrated and performed ahead of expectations in its first full year in Genus
  - Introduced proprietary TransitionRight™ genetic indices for Holstein and Jersey breeds focused on key dairy health traits
  - Formed De Novo Genetics on 1 September 2016, a majority-owned strategic partnership combining the elite Holstein breeding programmes of ABS and De-Su, the world's leading independent Holstein breeder, to accelerate internal production of elite bulls
- Scaled up Genus Sexed Semen ('GSS') technology to commercial launch readiness
  - Outcome of litigation against Sexing Technologies ('ST') announced post-period end provides a path towards commercialisation, with further Court rulings to provide additional clarity expected in the coming months
- Achieved substantial progress in establishing gene editing as a key strategic platform for future growth and transformation of Genus
  - In collaboration with the University of Missouri, discovered a major breakthrough to create pigs resistant to the devastating Porcine Reproductive and Respiratory Syndrome Virus ('PRRSv') disease through gene editing
  - Exclusive strategic collaboration with Caribou Biosciences to licence leading CRISPR-Cas9 gene editing technology, enabling further development of PRRSv resistant pigs and multiple other applications
  - Exclusive licence from Washington State University to use gene editing to target bovine respiratory disease ('BRD'), a major disease challenge for beef and dairy producers

1 For definitions of adjusted profit, adjusted EPS, cash conversion and return on invested capital, see Financial Review on pages 36 to 39. Results discussed throughout the Annual Report are on an adjusted basis unless otherwise stated.

# **Pioneering** Animal Genetic Improvement

Genus is a world-leading animal genetics company. We provide farmers with superior genetics that enable them to produce higher-quality animal protein more efficiently, in the form of meat and milk.

Genus is a market leader in porcine, dairy and beef genetics and is uniquely positioned as a global player, with a dedicated, multi-species research and development ('R&D') function and an international distribution network.

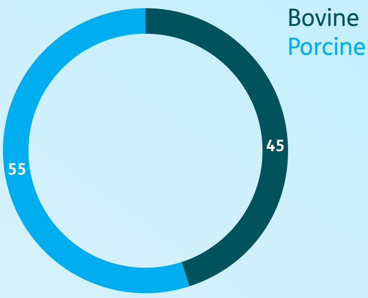
## What We Do

Genus applies DNA analysis to accelerate genetic improvement and deliver it to our customers, quickly and efficiently. We breed and distribute the genes of the world's best pigs and bulls, scientifically selecting livestock whose offspring are designed to increase the profitability of our customers, who are some of the world's leading farmers and food producers.

In the porcine market, we sell genetically superior boars and sows that produce offspring with desirable characteristics, such as feed-efficient growth or leaner meat.

In the dairy and beef markets, our primary product is bull semen, which is delivered through artificial insemination to improve our customers' herds and their efficiency. We also offer genetically superior embryos, through our subsidiary IVB.

**Revenue by Species** %




## How We Operate

Genus sells under well-known trademarks: 'PIC' for pigs and 'ABS' for dairy and beef cattle. During the year, we served our customers through three business units:

Genus PIC, which serves porcine customers in North America, Latin America and Europe.

Genus ABS, which serves dairy and beef customers in North America, Latin America and Europe.

Genus Asia, which serves porcine, dairy and beef customers in fast-growing Asian markets.

Our Asia unit was established in 2012 to create a strong base in the region's diverse and fast-changing markets. In FY17, we will integrate the Asia unit's porcine and bovine operations into the global PIC and ABS units, respectively.

This Strategic Report was approved by the Board of Directors on 7 September 2016 and signed on its behalf by:

**Karim Bitar**
**Chief Executive**

**Stephen Wilson**
**Group Finance Director**

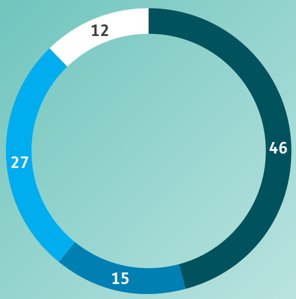
## Where We Operate

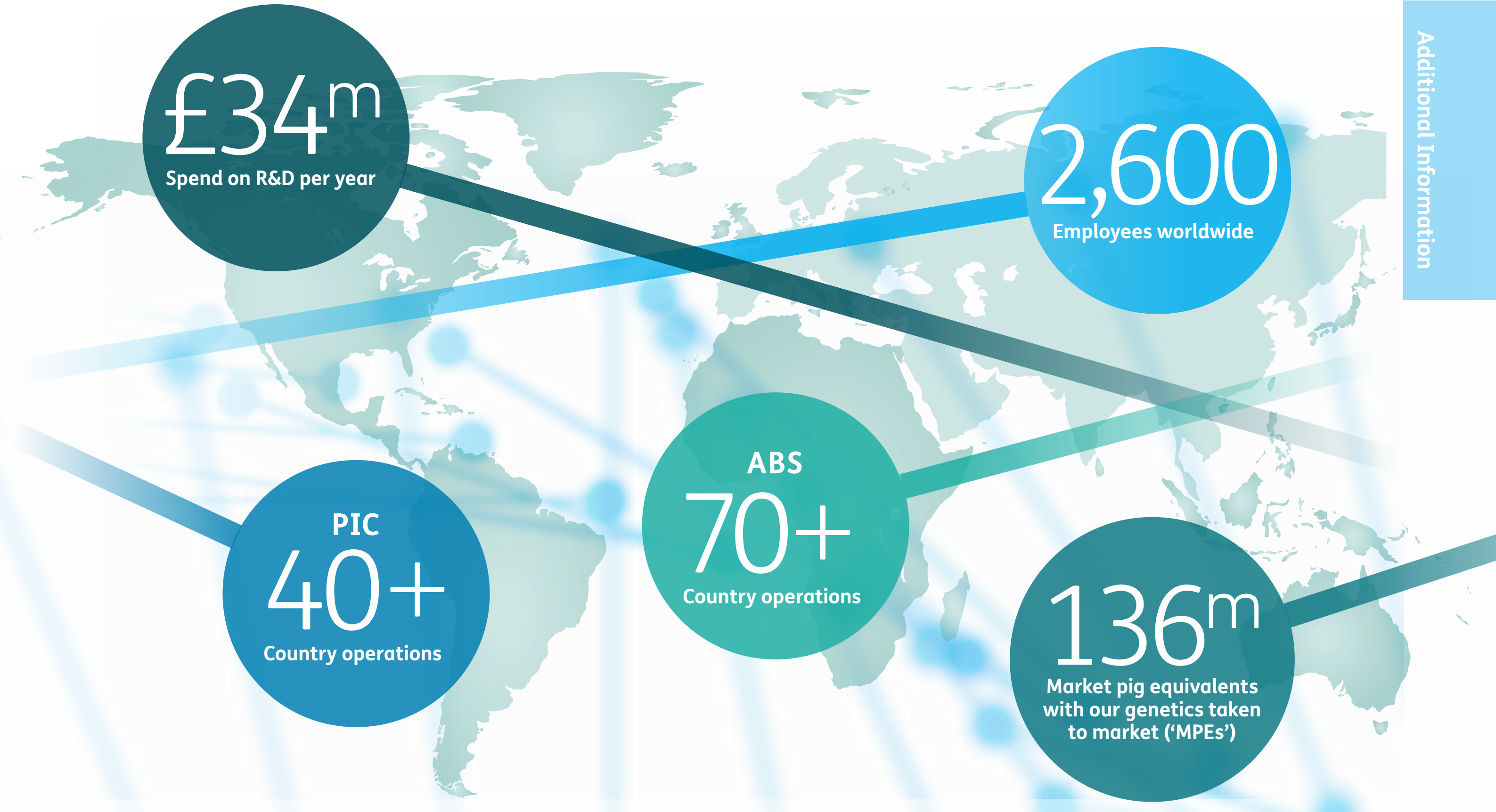
Our porcine business has a network of over 600 breeding herds in over 40 countries. Over 95% of these herds are owned by third parties or our customers.

Our bovine business owns bull studs in Europe, North America, Latin America and India, and sells genetics in more than 70 countries, both directly and through distributors.

Genus's head office in Basingstoke, UK, provides shared services support to our international operations. Our R&D laboratories are based in Madison, Wisconsin, USA.

**Revenue by Geography %**



Chairman's Introduction

# **Implementing** a Successful Strategy

"Genus delivered another strong performance in 2016, with a second consecutive year of robust profit growth."

Genus PIC and our Asian operations were the driving forces behind this growth, with Genus ABS seeing profits decline as its dairy customers faced further falls in milk prices.

The Group's strategy focuses on creating differentiated products, targeting key markets, and sharing in the value we deliver to customers. We made further strong progress against each of these objectives. Our research and development programmes are producing genetic gains that offer increased productivity, efficiency and profit to our customers. We aim to be at the forefront of science in our field and in the year developed or acquired exclusive rights to gene editing technology and applications. We also made good progress in preparing our Genus Sexed Semen technology for commercialisation.

China and India are the world's largest porcine and dairy markets respectively. We signed further royalty agreements in China and opened a world-class bull stud in India, positioning us for future growth in these markets.

As well as increasing our strategically important royalty revenues, we continued to demonstrate the value of our genetics through new proprietary indices targeted at traits that create value for commercial customers thus helping customers to understand the benefits of our superior genetics and allowing us to share in the value we add.

### Developing our Board and People

The latest independent evaluation of the Board and its Committees shows that the Board continues to provide strong and effective leadership. Succession planning and diversity are important focus areas for us and having previously identified the need for an additional Non-Executive Director, we were delighted to appoint Lysanne Gray to the Board during the year. Lysanne brings considerable experience of risk management, audit, business operations and the food sector, broadening the range of skills and knowledge on the Board.

Mike Buzzacott will be retiring from the Board at this year's Annual General Meeting, after more than seven years as a Non-Executive Director and chairman of the Audit Committee. On behalf of the Board I want to acknowledge his significant contribution during this time, particularly in transforming the Committee into an effective value adding resource, whilst developing and embedding our risk management processes. We thank him for his contributions and wish him well for the future.

More information on the Board and our corporate governance arrangements can be found on pages 44 to 87.

**Bob Lawson**

Chairman of the Board

Genus employs over 2,600 people in 26 countries, whose expertise and dedication enable us to innovate and deliver for customers. I want to thank everyone for helping to make this another successful year. In recognition of our people's importance, we continue to invest in developing their skills and ensuring we have a strong pipeline of critical talent coming through the organisation. To enhance our proprietary, differentiated products for customers, in the last year we have focused on recruiting, retaining and developing employees who can help us explore and harness outstanding science.

The Board recognises its responsibility for setting the behaviours and ethical standards we want to see throughout Genus. Our values (see right) underpin our culture, which is one of respect, openness and fairness.

Since the year end, we have been focused on the court case with Inguran LLC trading as Sexing Technologies ('ST') in Madison, Wisconsin. The jury's verdict, delivered in mid-August, confirmed that ST had wilfully maintained monopoly power in the market for processing bovine sexed semen since July 2012, but that ABS had infringed two patents and breached confidentiality under our existing contract with ST. We are currently awaiting the court's decision on our request for an injunction which, if granted, will allow us to terminate the existing ST contract and remove the contractual prohibitions preventing the launch of our GSS product in the short term. Full details of the case can be found in note 7 but as shareholders will readily understand this is an important milestone in the development of the ABS dairy business.

### Returns to Shareholders

The Board aims to balance the need to invest in the business, so we can capture the growth opportunities we see in front of us, with the requirement to offer shareholders an attractive return on capital and rising dividends.

We are recommending a final dividend of 14.7 pence per share, giving a total dividend for the year of 21.4 pence per share, following the interim dividend of 6.7 pence. This represents an increase of 10% over last year's total dividend of 19.5 pence. The final dividend will be paid on 2 December 2016, to shareholders on the register at the close of business on 18 November 2016.

### Summary

This was a pleasing year for Genus, with robust financial performance in often difficult markets, and good progress with our strategy. In the coming year, the Board will continue to focus on successfully implementing the Group's strategy, the competitive landscape, managing risk and continuing to enhance governance. 2017 will see us step up our investment in research and development, as we look to further develop and progress our differentiated product offerings and position the business for long-term success.

Bob Lawson

**Bob Lawson**
**Chairman**
7 September 2016

## Our Values

**Customer Centric**
We are one team, dedicated to helping customers thrive. We anticipate their needs and help them seize opportunities, acting as partners to improve quality, efficiency and output. If we're not adding value for our customers, we stop and think again.

**Results Driven**
We are proactive, determined to be the best we can be and to exceed expectations. We redefine standards for ourselves, our customers and our industry. Every one of us takes pride in delivering the highest level of performance. If something can be improved, we find a simpler, better way to do it.

**Pioneering**
We are an innovative, forward-thinking company. We have the courage and confidence to explore new ideas and the energy and enthusiasm to deliver them. We are creative, tenacious and resourceful in every area of our work.

**People Focused**
We are a business rooted in science but built around our people. We inspire, challenge and support everyone to perform, develop and grow. We treat others with respect and we invite views and feedback to help us improve.

**Responsible**
We are ethical to our core. We feel a deep sense of responsibility to our customers, colleagues, animals, communities and shareholders. We are honest, reliable and trustworthy. We mean what we say and do what we say.

# **Significant** Strategic and Operational Progress

## August 2015

### ABS launches TransitionRight™ index for Holstein cattle

TransitionRight™ is a proprietary index aimed at minimising post-calving metabolic disorders in dairy cattle


## September 2015

### Imports of boars to Russia recommence

Follows reopening of the Russian border for imports of pigs from Canada

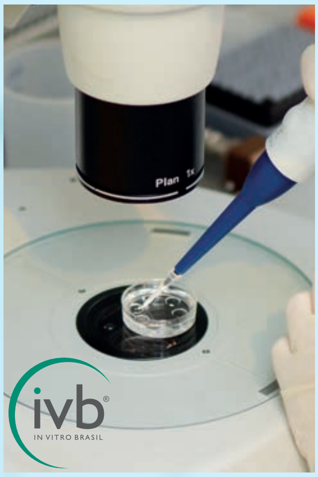
## November 2015

### New nucleus farms in the Philippines

Stocked two new third-party porcine sire line nucleus farms to expand capacity

### Launch of IVB USA

IVB began serving large commercial dairies and beef producers in the US

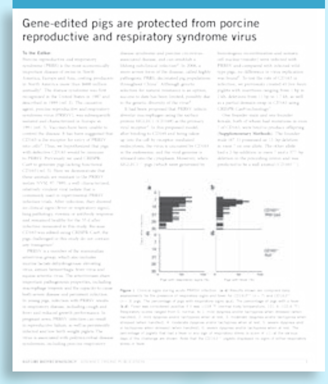



## December 2015

### Technological breakthrough in PRRSv resistance

Paper published in 'Nature Biotechnology' announces the development of the first PRRSv-resistant pigs, in collaboration with the University of Missouri

**Nature Biotechnology, December 2015**


Gene-edited pigs are protected from porcine reproductive and respiratory syndrome virus

### Weak dairy markets impact ABS

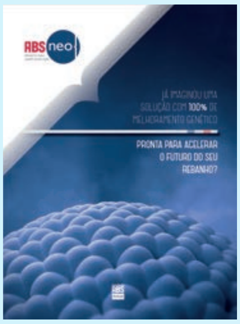
Milk prices in the US and Europe fall for a third consecutive six-month period, resulting in a 9% fall in dairy semen volumes at ABS through the year

Strategic Report
Corporate Governance
Financial Statements
Additional Information

January 2016

## Launch of ABS Neo in Brazil

Commercial launch of elite genetic embryos, frozen using an advanced proprietary freezing technology



February 2016

## Refinancing of Group debt facilities

New five-year, £170m multi-currency facilities with improved terms

March 2016

## Launch of TransitionRight™ index for Jersey cattle

TransitionRight™ index extended to Jersey cattle

April 2016

## ABS acquires St. Jacobs ABC

Vermont-based St. Jacobs is the world's leading provider of show ring and high type dairy sires

## New bull stud opens in India

New stud opened in Maharashtra, with capacity for 116 bulls and a new laboratory

May 2016

## Strategic collaboration signed with Caribou Biosciences

Providing Genus with access to CRISPR-Cas9 (gene editing) technology

CARIBOU BIOSCIENCES

June 2016[1]

## Landmark royalty agreements with key Chinese customers

Expanded capacity with existing partners and signed three new customer royalty agreements including a contract with Yunnan Shennong

1 Refers to signing date of Shennong agreement.

# **Rapid Innovation** and Strong Fundamentals

Genus is a leader in the porcine and bovine genetics markets and benefits from significant barriers to entry supported by its investment in technology.

## Leading international market position

Genus is a world leading provider of genetically elite breeding stock to pork, beef and milk producers globally, competing largely with national and regional farmer-owned cooperatives. Our international breadth reduces our reliance on any individual market or segment.

## Focused, multi-species, technology-driven business model

Genus is exclusively focused on pioneering animal genetic improvement, by leading the way in adopting new technology. Our proprietary genomic selection and gene editing capabilities can be applied across multiple species.

## Positive long-term market fundamentals

Growth in global demand for animal protein increases competition for finite resources, such as water and land. Farmers are increasingly looking to genetics and technology to help them meet this demand more efficiently, so they can compete effectively.

## Barriers to entry

Genus invests heavily in proprietary technologies to produce ever-higher performing animals, raising the bar for our competitors. Our branded, strategic distribution network serves more than 40,000 customers globally.

## Cash generative with a strong financial position

In the last five years we have converted over 90% of our adjusted operating profit into cash and maintained net debt below 1.5 times EBITDA. Our recently renewed debt facilities provide us with £50m of headroom and expire in 2021. This enables us to invest in technology and accelerate genetic gain, further differentiating our products from the competition's.

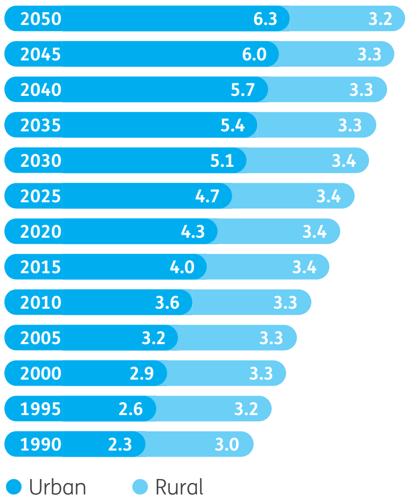
# **Long-Term** Demand Drivers for Animal Genetic Improvement

There are sustainable long-term drivers of global demand for animal protein and the way it is supplied. Genetic improvement is critical to addressing the associated challenges.

## 1. Growing Demand for Animal Protein

The global population is expected to grow by over 1 billion between 2015 and 2030, with the proportion of urbanised populations increasing from 54% to 60% of the total over the same period. Urbanised populations tend to become wealthier, leading to greater appetite for animal protein.

**World Population Growth** 1990–2050
Billion




Source: United Nations, Department of Economic and Social Affairs, Population Division (2014).

## 2. Supply Constraints and Uncertainty

Volatile weather and increasing competition for scarce resources, such as water and land, can constrain animal protein production. These factors can also affect the availability of raw materials, particularly animal feed, which indirectly impacts protein production. This puts pressure on producers to be as efficient as possible.

## 3. More Integrated Supply Chains

Supply chains are vertically integrating, resulting in fewer participants in the chain. This increases transparency of where food comes from, giving consumers more influence over food producers, and driving demand for higher-quality animal protein and more disease-resistant animals, with less use of drugs.

## 4. Protein Producers Becoming Larger and Increasing Use of Technology

Producers are increasingly looking to technology to become more efficient. For example, dairy farmers are rapidly adopting embryo technology, so they can select both male and female parents and deliver a step change in the quality of their milking herds.

Producers also seek efficiency gains through scale. In porcine, large scale integrated production represents the majority of capacity in the US and Brazil, and is growing fast in China. Larger producers typically measure performance in more detail and better understand the benefits of superior genetics.

## Comparing PIC's and ABS's Markets

Genus PIC and Genus ABS operate in markets with different dynamics. The table below summarises the key characteristics of our addressable markets.

| | PIC Porcine | ABS Dairy & Beef |
|---|---|---|
| **Industry** | Significant barriers to entry, with high product differentiation | Lower barriers to entry, with less product differentiation |
| **Customer landscape** | Consolidated and highly technified, with royalty contracts linking price to value added | Fragmented and some technification, with prices per unit of sale |

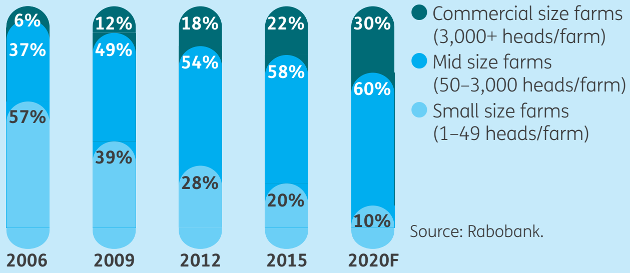
## Market Opportunity in Porcine

### Pig Population

Heads, million


Source: FAO 2014.

### Changes in Pig Production by Size of Farm in China




Source: Rabobank.

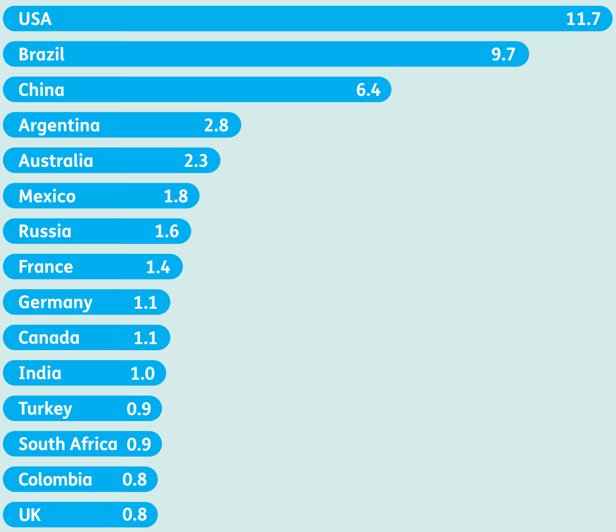
Over 1.2 billion pigs are produced for slaughter globally each year in the markets in which PIC operates, of which around half are produced in China.

The majority of pigs in Asia come from small scale production facilities, which typically employ less technology. However, the drive for efficiency is causing a shift in production towards larger, more integrated production with higher use of technology. This will lead to an increased demand for higher quality genetics, growing PIC's addressable market. PIC currently supplies over 60% of the world's top pork producers.

## Market Opportunity in Beef

### Beef production

Tonnes, million



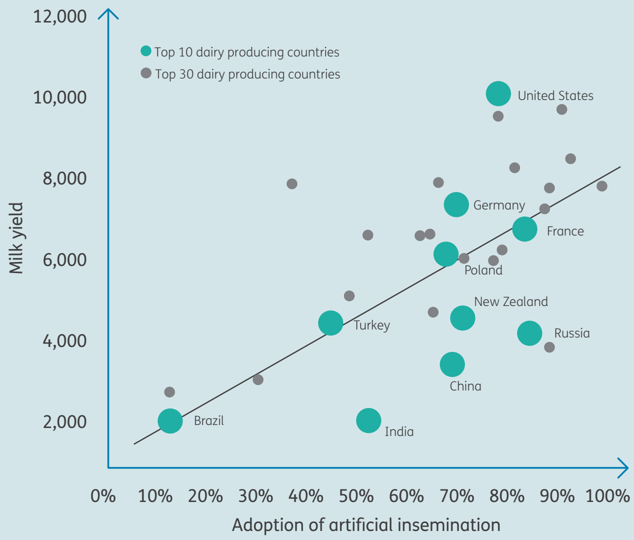

Source: FAO 2013, total cattle meat produced.

The vast majority of beef cattle in our target markets are bred on pasture by releasing bulls for natural breeding. Less than 10% of beef animals in these markets are serviced through AI, although this offers access to elite genetics. Competing demands for land and resources are expected to increase the drive for efficiency and quality. This is expected to give rise to demand for better genetics delivered through AI, as well as new technology, including IVF and gender skew. ABS currently has around a 20% share of the addressable AI market.

## Market Opportunity in Dairy

Elite genetics are sourced internationally from donor parents and delivered through artificial insemination ('AI'). As the use of AI increases, so does ABS's market. There is also a large spread in milk yield between countries with similar AI levels, presenting an opportunity to increase productivity by displacing locally sourced semen with elite genetics, and through adopting technology. To compete in this market, genetics providers must be able to produce elite genetics, distribute them globally and effectively communicate their benefits. A small but growing market segment is also adopting in vitro fertilisation ('IVF') and gender skew technologies, to accelerate genetic improvement in their herds.

In the short term, milk prices affect farmer profitability and their demand for elite genetics. The past two years have seen falling milk prices in key markets, reducing demand for elite genetics.




Source: Genus estimates, OECD, NAAB, Eurostat, DEFRA, ASBIA, IFCN, NHIA.

# Our Business Model

Genus uses genome science to produce more efficient pigs and cattle for farmers. We deliver these animals into our customers' herds as efficiently as possible and we link the amount we charge our customers to the benefits our superior animals deliver for them.

## Our Core Strengths

### Genetically elite animals

We own genetically elite pork, beef and dairy breeding herds, and also have strategic partnerships with third-party bovine breeders.

### Leading technology and know-how

We have a team of over 90 PhD scientists in-house, and collaborative relationships with leading research institutions. We also have cutting-edge technologies that enable us to skew the chances of getting male or female offspring, produce embryos and edit animals' genes.

### Global supply chain and distribution

We produce bovine semen from our facilities across four continents, and sell it through our own staff and independent third-party resellers. We also produce embryos in the US and Latin America. In porcine, we genetically manage herds in over 40 countries. More than 95% of these herds are third-party owned, reducing our farming and commodity risk.

### Strong customer base

In bovine, we serve over 40,000 customers globally, including some of the world's leading beef and dairy producers. In porcine, we serve over 60% of the world's leading pork producers, and engage most of them in multi-year supply agreements.

## Our Business Model

### Produce differentiated products

Our customers want higher performing animals that require less feed to grow, are more resistant to disease and produce higher quality protein. We produce animals with desirable characteristics by continuously selecting the highest performing animals in our herds and throughout our supply chain to breed superior generations using our technology and know-how, in a continuous cycle.

### Distribute genetics quickly and efficiently to our customers

To give our customers the number of elite pigs they need, we deliver live animals and semen to third-party 'multipliers' or our customers, who then multiply our pigs over four generations to deliver slaughter pigs. Our global supply chain and distribution quickly gets our latest genetics to customers.

We distribute bovine genetics as semen, embryos and live animals. We produce and process these in strategically located studs and laboratories, both owned and third party, and sell them directly in 21 countries, and through distributors in approximately 50 countries. We offer sexed bovine genetics, as well as elite frozen embryos.

To maximise our products' performance in customer herds, our global technical service teams advise on nutrition, reproduction, health and other areas.

## Share in the value created

We price our products to reflect the value they deliver for our customers.

Our bovine genetics sold as semen are valued using both public and, increasingly, proprietary economic indices, which capture a weighted basket of desirable characteristics. Embryos are priced based on the genetic merit of both parents, determined through their respective index rankings.

Our porcine genetics are measured through our indices aimed at customer profitability, and are primarily sold on multi-year pricing models, with an upfront payment equal to the cost of production and a deferred royalty linked to the volume of pigs produced. This creates customer loyalty and aligns our interests with theirs.

# Delivering For Our Stakeholders

### Customers

Our genetically superior animals help our customers to produce better quality and quantity of meat or milk at lower cost.

### Consumers and communities

Our animals help to reduce the volume of feed and water required to produce meat and milk. This lessens our customers' environmental impact and increases the availability of safe, affordable animal protein for all.

### Our people

Genus employees have the opportunity to develop themselves and harness cutting edge science to deliver value for our customers, whilst benefiting communities, animal welfare and the environment.

### Investors

As we share in the value that our products deliver to customers, we deliver attractive returns to our investors.

# Strategic Framework

Genus has a robust strategy to meet its corporate goals and capture the significant growth opportunities in the animal genetics market.

## Increasing Genetic Control and Product Differentiation

### To maintain and enhance our product leadership

We do this by leveraging our genomic selection and broader genome science capabilities to continuously improve our herds, and investing in new technology and tools to strengthen our capabilities.

#### Achievements in 2015/16

**Pork**

- Developed PRRSv-resistant pigs and secured exclusive global licence
- Accelerated rate of genetic improvement

**Beef & Dairy**

- Sourced 20% of all new US Holstein bulls from our internal breeding programme
- Formed a strategic partnership with the world's leading independent Holstein breeder[1]
- Launched proprietary health indices for Holstein and Jersey cattle
- Secured an exclusive licence for technology to combat BRD

**Technology**

- Prepared GSS for launch
- Secured access to CRISPR-Cas9 gene editing technology, through collaboration with Caribou Biosciences

#### Key performance indicators

- See our Increasing Genetic Control and Product Differentiation KPIs

See page 16

1 In September 2016.

## Targeting Key Markets and Segments

### To deliver the right offering for the right customers

We do this by targeting meat and milk producers globally who understand the impact of genetics, offering them products, support and technical services tailored to their needs.

#### Achievements in 2015/16

**Pork**

- Grew presence with leading pork producers in Europe and Asia
- Signed new supply chain agreements in China

**Beef & Dairy**

- Won our first IVF customers in the US
- Began selling elite frozen embryos in Brazil
- Launched a new bull stud in India

#### Key performance indicators

- See our Targeting Key Markets and Segments KPIs

See page 16

# Sharing in the Value Delivered

**To capture an appropriate share of the value we deliver to customers**

We do this by demonstrating the value of our genetics and indices through trials and aligning our interests with our customers', by linking our revenues to their productivity.

## Achievements in 2015/16

### Pork

- Signed three new royalty agreements with large customers in China
- Grew proportion of our business under royalty by 2 percentage points

### Beef & Dairy

- Achieved over 7% price increase for high health status bulls, and grew their share of total volumes by 1.7 percentage points[2]
- Achieved over 20% aggregate price increase in Latin America

## Key performance indicators

- See our Sharing in the Value Delivered KPIs

See page 17

2 When comparing average unit blend prices and share of total volumes of Holstein bulls ranked as 5* under TransitionRight™ for the periods Apr – Jul and Aug – Dec 2015. TransitionRight™ bulls are ranked from 1* to 5*.

## Performance

Our key performance indicators measure how well we are achieving our goals

See pages 16 to 17

## Risk

We look to understand and mitigate the risks to achieving our strategic goals

See pages 18 to 19

## Divisional Progress

Each of our divisions and our R&D function has strategic priorities that support our Group strategy

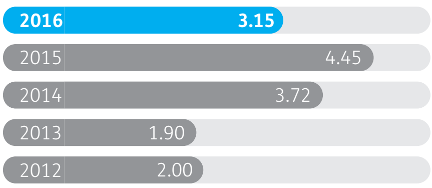
See pages 28 to 35

# Key Performance Indicators

We monitor and measure our strategic progress by reference to the three parts of our strategy: increasing genetic control and product differentiation; targeting key markets and segments; and sharing in the value delivered.

## Increasing Genetic Control and Product Differentiation

**Porcine Genetic Improvement Index**
US$

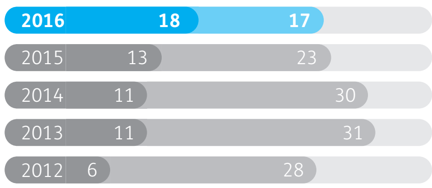



Measures the genetic gain we achieve in our porcine nucleus herds.

**Definition**
The index measures the marginal economic value improvement in customers' US$ profitability, per commercial pig per year, on a rolling three-year average. Prior years' index ratings have been updated, to reflect the latest results from genomic selection and the economic values of pork production.

**Performance**
Implementing genomic selection technology in 2013 led to an immediate step change in genetic gain value improvement. This continued in 2016, with an improvement of US$3.15.

**Net Merit Rankings**
Genomic and daughter-proven bulls



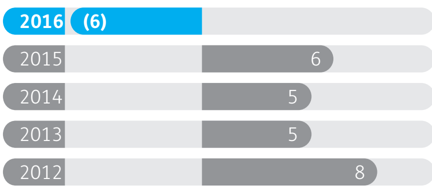

Monitors our success in developing bulls that are highly ranked, because of their genetic performance and economic merit.

**Definition**
The number of our generally available Holstein bulls listed in the top 100 Net Merit US$ rankings for progeny tested and the top 100 Genomic Net Merit rankings for genomically tested sires.

**Performance**
Genus maintained a competitive industry line-up. Holstein proven bulls declined due to a limited pipeline of genomic bulls several years ago. We have continued to strengthen our current position in the genomic bull category.

## Targeting Key Markets and Segments

**Dairy and Beef Volume Growth**
%

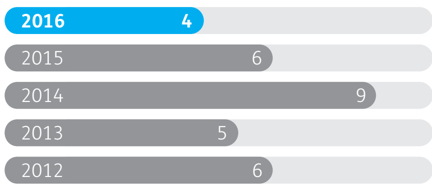



Tracks our global unit sales growth in dairy and beef.

**Definition**
The change in volume of dairy, beef and sorted units of semen, delivered to customers in the year.

**Performance**
Total bovine volumes declined 6% to 17.3 million doses in tough dairy markets, with Europe and North America particularly challenging. Beef units grew 4% as farmers continued to increase use of beef semen in dairy cows.

**Porcine Volume Growth**
%




Tracks the growth in the number of pigs with PIC genetics globally.

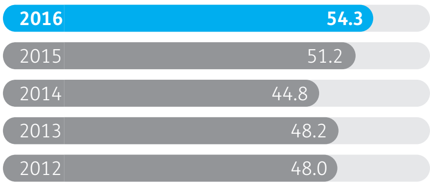
**Definition**
The change in volume of both direct and royalty animal sales, using a standardised MPEs measure of the slaughter animals that contain our genetics. Results include MPEs from Agroceres PIC, our Brazilian JV, and prior years have been restated for consistency.

**Performance**
Volumes grew 4% to 136 million MPEs with strong double digit growth in Asia from our China, Russia and Vietnam businesses and strong royalty volume growth across all regions. Volumes of upfront animals, where MPEs are counted at the time of initial sale, declined as planned.

# Sharing in the Value Delivered

## Adjusted Operating Profit (including JVs)

£m




To track underlying profit generation.

**Definition**
Operating profit including share of JVs, adjusted to exclude IAS 41 valuation movements on biological assets, amortisation of acquired intangible assets, share-based payments and exceptional items.

**Performance**
£54.3m, up £3.1m (up £4.6m in constant currency) due to strong performances across our porcine businesses, particularly in China, partially offset by declines in our Europe and North America dairy businesses and increased investment in R&D.

## Operating Profit per MPE

£

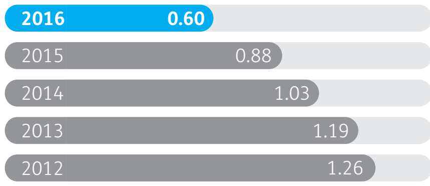

Monitors porcine profitability by unit.

**Definition**
Net porcine adjusted operating profit globally, expressed per MPE. Results include share of Agroceres PIC, our Brazilian JV.

**Performance**
£0.51, up £0.08 in actual and constant currency, helped by strong growth in our China porcine business and higher royalty volumes across all sales regions.

## Operating Profit per Dose of Bovine Semen

£



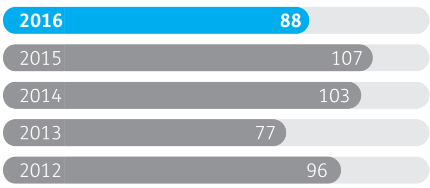

Monitors bovine profitability by unit.

**Definition**
Net dairy and beef adjusted operating profit globally, expressed per dose of semen delivered. Excludes India, as its characteristics are substantially different to the rest of our bovine business.

**Performance**
£0.60, down £0.28 (down £0.23 in constant currency) due to weak dairy markets in Europe and North America, along with impacts from foreign exchange rates. The longer term trend has been caused by higher cost of genomic bulls, increased product development to build our own genetic improvement capability and currency impacts, particularly in Latin America. Initiatives to address this trend include producing bulls internally, launching our GSS technology and building IVF capability, along with cost efficiency and pricing actions.

## Cash Conversion

%

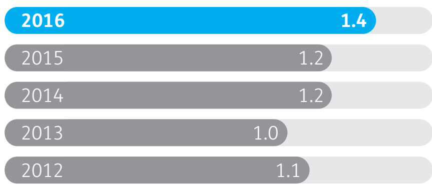



Monitors our success in converting profits into cash.

**Definition**
Cash generated by operations before capital expenditure, investments, interest, tax and dividends, expressed as a percentage of adjusted operating profit (excluding JVs).

**Performance**
Cash conversion of 88% was consistent with historical averages, following two very strong years that benefited from a step change in working capital management and the benefit of the exit from the Quebec nucleus in 2015.

## Net Debt : EBITDA




Ensures we have a strong balance sheet and the financial capability to execute our strategy.

**Definition**
The ratio of net debt (being gross debt including finance lease obligations less cash held), to adjusted earnings before interest, tax, depreciation and amortisation (excluding JVs).

**Performance**
1.4, up 0.2 on last year, reflecting the increase in net debt from £71.8m to £89.7m primarily as a result of foreign exchange movement on our US Dollar borrowings, partially offset by higher EBITDA.

# Principal Risks and Uncertainties

## Genus supplies biological products to agricultural customers and is exposed to a wide range of risks and uncertainties.

Some of these risks relate to current business operations in our global agricultural markets, while others relate to future commercial exploitation of our extensive R&D portfolio. The table below outlines the principal risks and uncertainties affecting Genus and how we manage them.

The Directors confirm that they have undertaken a robust assessment of the principal risks and uncertainties facing the Group.

More information on the types and levels of risks the Board is prepared to seek and accept in executing the strategy, and how we define risk appetite and identify and manage risks, can be found in the Corporate Governance Statement on page 55.

**Link to Strategy**

1 Increasing Genetic Control and Product Differentiation

2 Targeting Key Markets and Segments

3 Sharing in the Value Delivered

## Strategic Risks

| Risk description | How we manage risk | Strategy | Risk change in 2015/16 |
|---|---|---|---|
| **Developing products with competitive advantage**<br>• Development programmes fail to produce best genetics for customers.<br>• Increased competition to secure elite genetics. | Dedicated teams align our product development to customer requirements, while our technical services help customers make best use of our products. We frequently measure our performance against competitors in customers' systems, to ensure the value added by our genetics remains competitive. | 1, 2 | No change in porcine but increased in bovine due to continuing trend to genomic bulls. |
| **Commercialising GSS technology**<br>• Launching a new product technology carries technical, production and financial risks.<br>• Failure to commercialise our GSS technology due to intellectual property ('IP') and other disputes. | We have a rigorous process to prepare for the successful commercial launch of our GSS technology, supported by dedicated internal resources and external expert advice.<br><br>We also initiated legal proceedings in the US, in relation to anti-trust issues which, together with patent counter-claims, went to trial in August 2016. | 1 | No change. The initial verdicts in the legal proceedings create a path to commercialisation but further rulings by the Court are awaited to bring clarity to the next steps. Technical progress to scale up for commercial launch also progressed well, reducing launch risk. |
| **Developing and commercialising gene editing technologies**<br>• Failure to successfully develop and commercialise gene editing technologies due to technical, IP, market, regulatory or financial barriers.<br>• 'Game-changing' technology secured by competitors. | Our R&D Portfolio Management Team oversees our research, ensures we correctly prioritise our R&D investments and assesses the adequacy of resources and its IP freedom to operate. Formal collaboration agreements are in place with key partners to ensure responsible exploration and development of the technologies and the protection of IP. The Board is updated regularly on key development projects. | 1, 2 | Increased due to the discovery and pursuit of new gene editing applications and consequent higher investment in 2015/16 and beyond. All key initiatives are progressing through the R&D life cycle. |
| **Capturing value through acquisitions**<br>• Failure to identify appropriate investment opportunities or to perform sound due diligence.<br>• Failure to successfully integrate an acquired business. | We have a rigorous acquisition analysis and due diligence process, with the Board reviewing and signing-off all projects. We also have a structured post-acquisition integration planning and execution process. | 1, 2, 3 | No change. |

## Strategic Risks

| Risk description | How we manage risk | Strategy | Risk change in 2015/16 |
|---|---|---|---|
| **Growing in emerging markets**<br>• Failure to appropriately develop business in China and other emerging markets. | We have a robust organisation, blending local and expatriate executives supported by the global species teams, to ensure we comply with our global standards. The Board provides regular oversight and dedicated significant time in 2015/16 to discussing our strategy and the results of our operations in China. | 2 | No change. Revised plans and approach to the market in China and other emerging markets continue to improve our ability to control and mitigate the risk. |

## Operational Risks

| Risk description | How we manage risk | Strategy | Risk change in 2015/16 |
|---|---|---|---|
| **Protecting IP**<br>• Failure to protect our IP means Genus-developed genetic material, methods, systems and technology could become freely available to third parties. | We have a global, cross-functional process to identify and protect our IP. Our customer contracts and our selection of multipliers and JV partners include appropriate measures to protect our IP. We conduct robust 'Freedom To Operate' searches to identify third-party rights to technology. | 3 | No change. |
| **Ensuring biosecurity and continuity of supply**<br>• Loss of key livestock, owing to disease outbreak.<br>• Loss of ability to move animals or semen freely (including across borders) due to disease outbreak, environmental incident or international trade sanctions.<br>• Industry-wide disease outbreaks affecting demand for Genus products. | We have stringent biosecurity standards, with independent reviews throughout the year to ensure compliance. We continue to extend the geographical diversity of our production facilities, to avoid over-reliance on single sites. | 1, 2 | No change. |

## Financial Risks

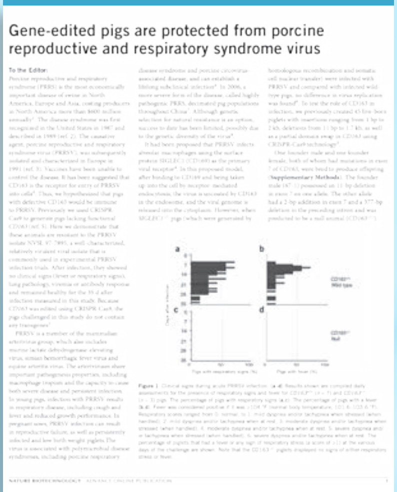
| Risk description | How we manage risk | Strategy | Risk change in 2015/16 |
|---|---|---|---|
| **Managing agricultural market and commodity prices volatility**<br>• Fluctuations in agricultural markets affect customer profitability and therefore demand for our products and services.<br>• Increase in our operating costs, due to commodity pricing volatility. | We continuously monitor markets and seek to balance our costs and resources in response to market demand. We actively monitor and update our hedging strategy to manage our exposure. Our porcine royalty model and extensive use of third-party multipliers mitigates the impact of cyclical price reductions or cost increases in pig production. | 3 | No change. |
| **Funding pensions**<br>• Exposure to costs associated with failure of third-party members of joint and several liabilities pension scheme.<br>• Exposure to costs as a result of external factors (such as mortality rates, interest rates or investment values) affecting the size of the pension deficit. | We are the principal employer for the Milk Pension Fund and chair the group of participating employers. The fund is now closed to future service and has an agreed deficit recovery plan, based on the 2015 actuarial valuation. We monitor the strengths of other employers in the fund and have retained external consultants to provide expert advice. | n/a | No change. The trustees' decision to grant future pension increases on the basis of the movement in CPI, rather than RPI, will reduce costs. However, this is currently being partially offset by the impact of falling bond yields following the EU referendum in the UK. |

# Increasing Genetic Control and Product Differentiation

## Case Study
### Tackling Disease with Breakthrough Technology

Porcine Reproductive and Respiratory Syndrome Virus ('PRRSv') is the most significant and harmful disease faced by pig farmers. Millions of pigs and piglets suffer from the virus each year, which causes reproductive failure, reduced growth and premature death. Despite being a challenge for the pork industry for more than a quarter of a century, there is still no cure.

**Nature Biotechnology, December 2015**


Gene-edited pigs are protected from porcine reproductive and respiratory syndrome virus

In December 2015, we announced that our long-standing collaboration with the University of Missouri had produced a major breakthrough – the first pigs resistant to this devastating disease. Using gene editing, the University was able to breed pigs that do not produce a protein necessary for PRRSv to spread. Early stage studies showed that these pigs stayed healthy and gained weight normally when exposed to the virus. We are now working to further develop this technology and expect that it will take at least five years to obtain any required regulatory approvals and make PRRSv resistant animals available to farmers.

Our work will be aided by our new strategic collaboration with Caribou Biosciences – our largest technology driven alliance to date. Caribou is a leader in the revolutionary field of CRISPR-Cas9 gene editing, which allows precise and controllable changes to the genome. Genus has a worldwide exclusive licence to use the technology to develop new traits in pigs, cows and potentially other livestock species, with PRRSv being one of our first targets. This collaboration will ensure that Genus remains at the forefront of developing and applying technology to support animal well-being.

"In December 2015, we announced a major breakthrough – the first pigs resistant to Porcine Reproductive and Respiratory Syndrome Virus."

# Targeting Key Markets and Segments

## Case Study

### Pursuing Growth in the World's Largest Dairy Market

India offers a major opportunity for Genus. With a population of 1.25 billion people, it is the biggest dairy market in the world. However, milk yield and production efficiency are low and local restrictions have hindered genetic improvement, including a ban on importing bulls and limits on importing semen.

In view of these restrictions, we explored other ways of giving farmers access to our much-needed genetics, and identified a way of importing elite North American genetics in the form of embryos, and implanting them in carefully selected animals. We needed a local partner to help with the process and joined forces with the Chitale family, who owned the only private stud in India.

As we grew the range of locally housed bulls, it became clear that we needed a larger production facility. We formed a joint venture with the Chitale family and in early 2016, opened a truly world-class facility, incorporating the very latest practice in areas such as bull handling, production and health and safety. The stud is the leading facility of its type in India and one of the most advanced in the world.

At full capacity, the stud will be able to produce more than 7 million semen straws a year. It also has room for expansion and is compliant with our GSS project, so we are ready to implement this when it comes on stream. Increasing production is being supported by further development of our commercial infrastructure and offer within India. This includes expanding our range of distributors and distribution models and developing a tailored Indian index for genetics, so we can breed for Indian conditions and economics.

## Case Study

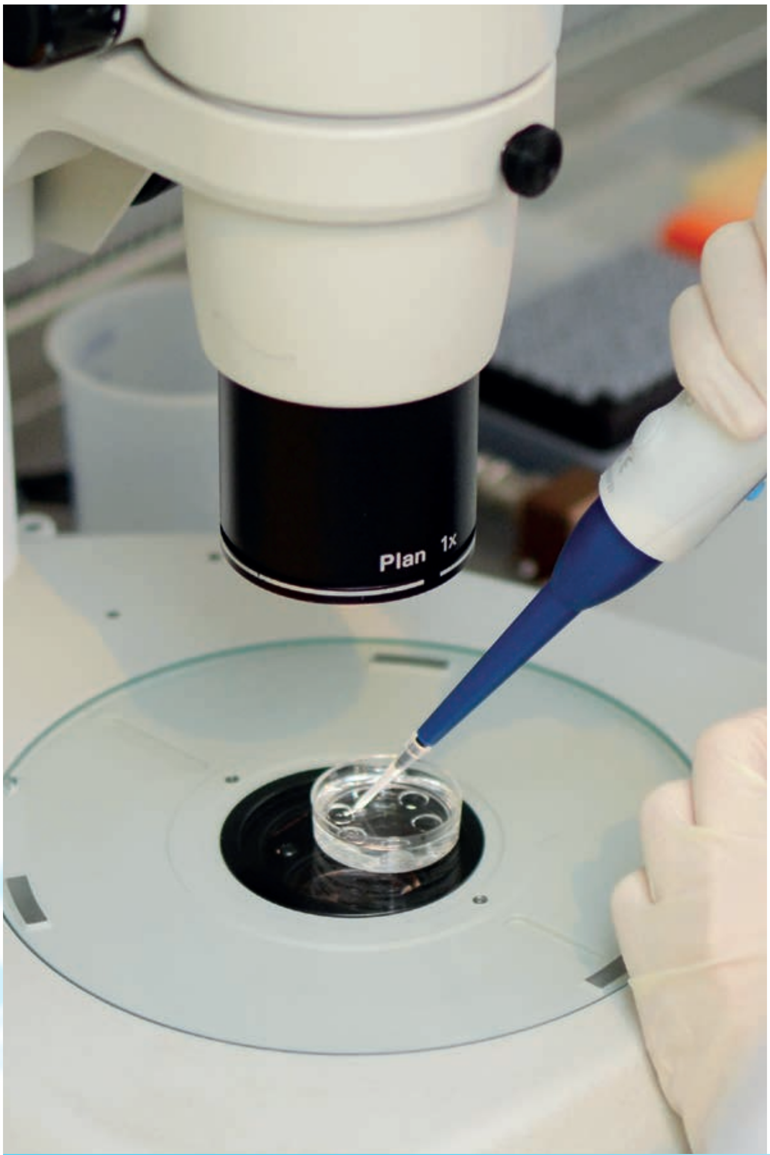
# Expanding Our IVF Offering

In 2015 we acquired a majority holding in IVB, the world leader in bovine in vitro fertilisation ('IVF'). While IVF and artificial insemination ('AI') both allow farmers to improve their herds' genetics on the male side, IVF enables them to select elite female genetics as well. This allows our customers to accelerate annual genetic improvement in their herds.

In 2015/16, ABS and IVB have worked together to expand IVB's geographical footprint and its product offering. IVB has established a new presence in Mexico, which is an exciting market with the largest 'cow pocket' in Latin America. Mexico offers tremendous potential to implement IVF technology and to leverage ABS's strong presence. The new operation includes a laboratory equipped with the very latest technology. IVB has also relocated a complete team from Brazil, to ensure its technicians in Mexico have substantial experience of IVF. This will ensure Mexican producers receive the same high quality as our Brazilian customers.

The laboratory in Mexico can produce either fresh or frozen embryos for dairy producers. IVB's new Direct Transfer process has simplified the freezing and transferring of embryos, so they can be implanted in one step, similar to AI. Early results show this new methodology is achieving equal or better results than previous freezing techniques, strengthening customers' confidence in Direct Transfer. IVB and ABS have also begun selling high genetic merit embryos in Brazil and we continue to target the progressive farms segment, which has a high level of technology adoption and the scale to implement it.

ivb®
IN VITRO BRASIL




"In 2015, we acquired a majority holding in IVB, the world leader in bovine IVF."

# Sharing in the Value Delivered

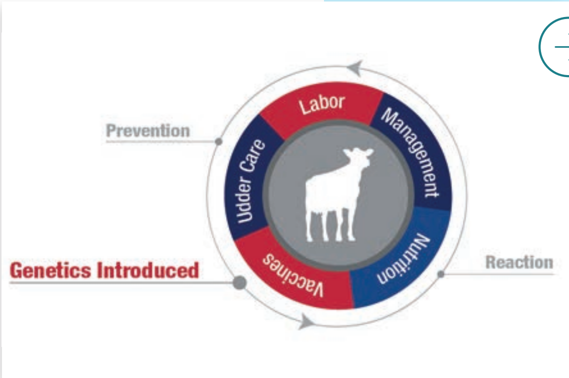
## Case Study
## Positioning Genus for Further Success in China

China is the world's largest porcine market and offers major long-term opportunities for us. When we first established a presence in China, its differing risk profile led us to operate through owned and joint venture farms. In line with our global strategy, we are now transitioning to contracted production with trusted partners, helping to mitigate our exposure to farming and commodity price risk.

Riverstone became our first multiplier and royalty-based customer in 2014. This year we signed a seven-year agreement with the Yunnan Shennong Agricultural Industry Group, to enable them to establish 50,000 sows for a new production facility. The agreement includes a multiplication farm, with the capacity to produce 30,000 grandparent gilts a year, and the establishment of a sire line nucleus, which will double our capacity to produce high-quality terminal boars in China. Both will initially be stocked with the latest high-health great-grandparent animals from PIC's genetic nucleus in the US. In addition, we signed an agreement with Jinluo group, China's biggest slaughter plant, to supply terminal boars for its 50,000 sow commercial system.

These agreements, and the long-term royalty arrangements involved, give us resilient revenues and enable us to share in the value created by our proprietary genetics.

With this firm foundation in place, we will now be integrating our porcine operations in China and our other Asian markets into the global PIC organisation. This will help us deliver a consistent customer experience worldwide, while maintaining flexibility to address local market needs.




## Case Study
# Preventing Post-Calving Disorders Through Advanced Genetics

Cows making the transition from giving birth to becoming productive members of the milking herd can suffer from a number of significant health problems. In fact, three-quarters of disease in dairy cows occurs in their first 30 days in milk and as many as half of high-producing cows are affected. This means dairies can lose up to 10% of the herd each year due to transition cow problems, resulting in substantial time, money and productivity costs.

In August 2015, we launched our TransitionRight™ genetics, giving farmers the first genetic solution to multiple post-calving disorders. Some of the key problems TransitionRight™ addresses are mastitis, metritis and ketosis, which typically cost US farmers between US$200 and US$350 per case. By choosing a 5-star TransitionRight™ sire, farmers can save an average of US$100 per lactation compared with a 3-star sire and US$200 compared with a 1-star sire. This saving reflects lower treatment costs, labour and lost profits, as well as avoiding additional housing, care, monitoring and feeding expense. At the same time, reducing the incidence of post-calving disorders is beneficial for animal welfare.

Customers worldwide have responded positively to TransitionRight™'s introduction and have quickly incorporated TransitionRight™ into their genetic selection criteria. As a result, we have seen growing demand for high-ranking 4-star or 5-star TransitionRight™ units.

# **Robust** Performance

"In 2017, we will further accelerate our efforts to develop and apply the science and technology that is essential to our longer-term success."

**Karim Bitar**
Chief Executive

2016 was another good year for Genus. The Group performed well overall and we met our financial and operational goals, as the breadth of our business by geography and species helped drive growth, despite challenges in some of our markets. We also made strong progress with implementing our innovation-led strategy, as we develop Genus into a company, based on leading-edge science and biotechnology.

## Group Performance

Genus achieved a robust performance in 2016, with adjusted profit before tax including joint ventures ('JVs') rising 7% (10% in constant currency) to £49.7m. On a statutory basis, profit before tax rose 5% to £60.9m. Porcine volumes rose by 4%, although bovine volumes were 6% lower in tough dairy markets. Strategically important revenues such as porcine royalties rose strongly, however, total revenue was 3% lower.

Genus PIC had another strong and successful year, despite challenging conditions for our customers in most regions, achieving a 9% growth in adjusted operating profit including JVs in constant currency. Profits were up in all regions and the business achieved strong growth in royalty volumes and revenues. Over the last few years we have repositioned PIC's European operations away from low margin up-front parent gilt sales towards royalty contracts, particularly with integrated pork producers, and we saw encouraging results in the year from this work.

With dairy customers facing depressed milk prices across major markets, Genus ABS had a tough year and saw adjusted operating profits fall by 16% in constant currency. We took tactical actions on costs and margins to protect short-term performance and strategic actions outlined below to position the business for long-term growth. IVB, the world's leading supplier of bovine IVF services and products, was successfully integrated following our acquisition of 51% in March 2015 and delivered an encouraging performance in its first full year in Genus. Our Asian operations achieved very strong results across the region, more than doubling operating profit including joint ventures. Growth in China stood out, as we saw the benefit of our work to focus on large scale pork producers while reducing farming risk in this business. We also benefited from strong porcine market conditions in China. Performance in Russia also improved as porcine import restrictions were lifted.

## Strategic Progress

R&D is the starting point for our innovation-led strategy to enable us to increase genetic control and product differentiation. Genomic selection techniques continue to advance and our application of them to accelerate genetic gains in porcine continues in our nucleus herds and is now starting to feed into performance gains for our customers. We also apply these techniques in bovine, developing proprietary indices such as TransitionRight™ (see the case study on page 25) focused on dairy health traits and progressing our internal breeding programme, which is now producing some of our most elite bulls.

On 1 September 2016, we formed De Novo Genetics, a majority-owned Holstein breeding strategic partnership, with De-Su, the world's leading independent Holstein breeder. De Novo will further accelerate the proportion of bulls Genus produces internally by combining ABS's and De-Su's elite Holstein breeding programmes. This will gives us greater control of the genetics we need in order to create differentiated solutions that help commercial dairy farmers increase profitability through improved herd productivity, health and efficiency.

We made excellent technical progress with our GSS technology in 2016, as we prepared it for commercialisation. Our litigation against ST went to trial in August 2016 and, while there are several issues still pending with the Court, the initial verdict's finding that ST had wilfully maintained a monopoly should give us a path to the commercial launch of the technology. This could be within the next few months if our request for an injunction releasing us from our contract with ST is granted. The jury's findings that our technology infringes two of ST's patents and specifying royalties to be paid to ST will be subject to further review by the Court and is not expected to delay commercialisation. We look forward to bringing competition to this important market.

Gene editing is becoming a key part of our technology platform that could transform Genus over time. Our collaboration with the University of Missouri produced a major breakthrough during the year, by using gene editing to create the first pigs resistant to the devastating PRRSv disease. We are working to develop this technology, aided by our new strategic collaboration with biotechnology pioneer Caribou Biosciences. This gives us an exclusive worldwide licence to use the revolutionary CRISPR-Cas9 gene editing technology to develop new traits in pigs, cows and potentially other livestock species. Since the end of the year, we have also announced an exclusive worldwide licence with Washington State University, for patents and know-how relating to gene editing targets for BRD.

Genus continued to target key growth markets during the year, with particular progress in India and China. India is the world's largest dairy market and the opening of our joint venture's new bull stud was an important milestone for Genus. This new stud is one of the most advanced designs in the world. China is the biggest pork producer globally and we strengthened our position by signing landmark royalty agreements with three key Chinese integrated pork producers.

## People and Organisation

With Genus Asia now well established and growing successfully, we intend to integrate its porcine and bovine operations into PIC and ABS in the coming year. This will support our strategy for each species and help us to deliver a consistent experience to customers around the world. Jerry Thompson, who has successfully led Asia, will take on a new role to further focus our efforts in establishing a greater presence with beef customers globally as COO Genus ABS Beef. He will work closely with Saskia Korink, who will now lead our global Genus ABS Dairy operations.

Our employee pulse survey continued to show that our people find Genus an engaging and stimulating place to work. They are committed to our vision and understand our strategy for achieving it. I want to thank all my colleagues for their contribution to delivering for our customers, which in turn enables Genus to succeed.

## Outlook

Over the last two years, Genus has grown adjusted profit before tax in double digits in constant currency. In 2017, we will further accelerate our efforts to develop and apply the science and technology that is essential to our longer-term success. This will lead to a significant step up in R&D investment in 2017 resulting in profit for the year being similar to 2016 in constant currency. However, we anticipate a benefit from exchange rates, with Sterling having declined sharply towards the end of 2015/16. Overall, we expect to make further strategic progress in 2017 and to perform in line with market expectations.

**Karim Bitar**
**Chief Executive**
7 September 2016

# Genus PIC

## Strategic Progress – Genus PIC

"We have strengthened our foundations for long-term success by harnessing leading-edge technologies."

Bill Christianson
Chief Operating Officer, Genus PIC

We have continued to grow our porcine business by accelerating increases in genetic gain and providing world-class products and services. In parallel, we have strengthened our foundations for long-term success by harnessing leading-edge technologies. During the year, we made the following progress against our strategic objectives:

### Increasing Genetic Control and Product Differentiation

- Harnessed genomics to accelerate genetic gain and completed assimilation of genes from Génétiporc into our genetic improvement programme.
- Streamlined our range of Camborough gilts and elite terminal boars, to help provide a clear and consistent product offering.
- Worked with R&D colleagues on technologies that could aid development of new proprietary products; examples include our ground-breaking work to develop pigs resistant to Porcine Reproductive and Respiratory Syndrome Virus ('PRRSv'), undertaken in collaboration with the University of Missouri.

### Targeting Key Markets and Segments

- Strengthened relationship with large accounts; we are currently doing business with more than 60% of the globally largest accounts.
- Standardised processes and ways of working, such as a global approach to key account management.
- Explored new ways of working with smaller customers, to help meet their needs effectively and efficiently.
- Achieved particular success in Europe following our restructuring in 2013, with growth of 22%.
- Continued to build relationships with key industry stakeholders, including holding our latest global symposium in May 2016: this was attended by around 300 customers, helping us to strengthen existing contacts, make new connections and associate PIC with the latest thinking.

### Sharing in the Value Delivered

- Ran more product validation trials in more regions than ever before, consistently demonstrating the value of our products and enabling us to strengthen our pricing-for-value strategy in several markets.
- Continued to transition to a royalty pricing model in regions where this is relatively new, with volume increases of 8% in Europe, 16% in Latin America and 6% in Asia, resulting in 76% of our global business utilising the royalty model.

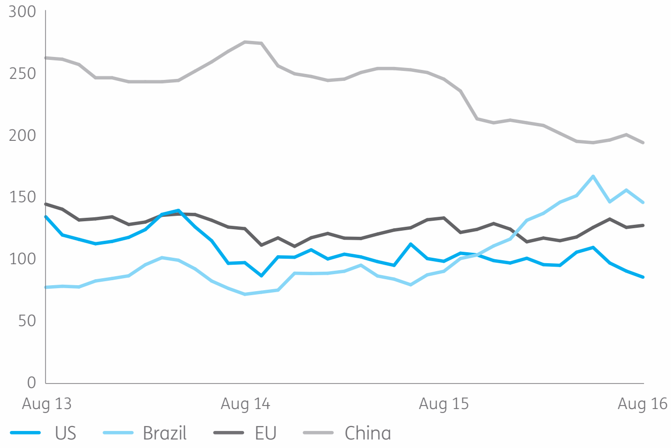
### Priorities for FY17

- Continue to pursue our global strategy, tailored as needed for local markets.
- Integrate our Asian porcine operations into our global structure, to help deliver a consistent customer experience worldwide.
- Significantly expand our global supply chain.

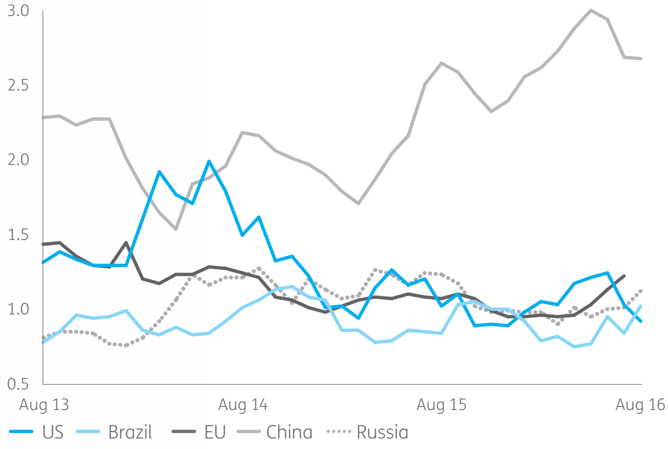
# Operating Review – Genus PIC

| | Actual currency | | | Constant currency |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | Movement % | Movement % |
| Revenue | **176.5** | 175.5 | 1 | (2) |
| Adjusted operating profit exc JV | **64.2** | 57.2 | 12 | 9 |
| Adjusted operating profit inc JV | **68.7** | 61.9 | 11 | 9 |
| Adjusted operating margin exc JV | **36.4%** | 32.6% | 3.8pts | 3.7pts |

**Corn – Key Markets**
£ per tonne




**Pork – Key Markets**
£ per kg




## Market

Market conditions for Genus's porcine customers were challenging in most regions over the past year. High output, along with geopolitical instability in Brazil, Russia and the EU, significantly affected profitability across the animal protein value chain. Global meat price indices for pork reached a 12-year low.

North American producers maintained a positive net return for the fiscal year, despite these challenging macroeconomic factors. A strong export programme, coupled with relatively low cost of production, delivered an estimated average of £5 profit per head to producers in the United States. Additionally, farm debt ratios in the US were low which continued to support expansion in 2015/16. The outlook for prices in North America is challenging in the near term, but a 6% forecast increase in slaughter capacity in the US during 2017 is providing some optimism to the industry. This will support overall demand, along with an expected 5% increase in exports.

In Europe, the porcine industry suffered from increased production and export bans. This led to oversupply and pork prices declining around 9% compared with the previous year, leaving prices about 20% below the average for the last five years and resulting in producers making significant losses. The outlook for producers is a bit more encouraging, as prices have recently started to rise and some herd contraction has taken place. It is also anticipated that exports to China should remain stable.

In Latin America, disease and economic volatility continue to challenge producers' profitability. In Mexico, porcine epidemic diarrhoea virus ('PEDv') and PRRSv have affected supply and contributed to higher pig prices. The political turmoil and recession in Brazil have hampered the otherwise promising performance of the Latin America pig industry. Even so, Brazil was the fourth largest pork producer in 2015/16 and continues to be a major participant in the global market. Firm exports to Russia and China, in conjunction with strong domestic demand, has Brazil on track to increase pork production 3% by the end of the calendar year, in spite of elevated input costs. Despite these challenges, Latin America remains a growth market.

Overall, market conditions are mixed heading into FY17. China will continue to be a driving force globally and exporting nations will rely on their consumption to bolster production and financial performance.

## Performance

During 2015/16, Genus PIC performed strongly. Adjusted operating profits including joint ventures were £68.7m, up 9% in constant currency, and margins expanded by 4% to 36%. Volumes grew by 2%, with all regions contributing strong growth in royalty volumes. Revenue was 2% lower, primarily due to lower sales of up-front animals. However, strategically important royalty revenues rose by 13% in constant currency.

In North America, profits were up 8% in constant currency, on volume growth of 3%. Strong customer uptake of high genetic merit boars through the CBV plus and CBV max pricing structures, in addition to high health in customer herds, contributed to royalty growth of 9%. A number of customers expanded their herds, which contributed to high breeding stock sales volumes.

Latin American profits improved 12% in constant currency, on 3% volume increases, helped by a strong operating profit performance in Mexico, up 29%. In Brazil, the PIC Agroceres joint venture also performed well, with a 23% increase in constant currency operating profit, but the rest of the region declined due to lower animal shipments to Venezuela, where customers' access to foreign currency was curtailed.

In Europe, volumes were slightly down, with an 8% increase in royalty volumes and a 14% decline in up-front volumes, in line with the strategic direction of the business. Revenue declined by 9% due to the lower up-front sales but operating profit increased 22% in constant currency. The strategic repositioning of the PIC Europe business over the last few years, to focus on royalty business with larger producers, is starting to show benefits despite the tough trading environment in the European pig industry.

Overall, PIC's successful execution of its strategy has enabled continued positive momentum globally.

# Genus ABS

## Strategic Progress – Genus ABS

"Despite difficult conditions in the global dairy market, ABS has continued to evolve a broader and increasingly differentiated range of solutions..."

Saskia Korink Romani
Chief Operating Officer, Genus ABS

Despite difficult conditions in the global dairy market, ABS has continued to evolve a broader and increasingly differentiated range of solutions to help dairy and beef customers 'Profit from Genetic Progress'. During the year, we made the following progress against our strategic objectives, whilst also implementing a number of short-term, profit-focused initiatives to counter the market headwinds:

### Increasing Genetic Control and Product Differentiation

- Expanded our elite dairy female programme with 20% of our new bulls sourced from it in 2016. In September 2016 we formed De Novo Genetics in partnership with the US's leading independent Holstein breeder.
- Strengthened our beef nucleus herd, which is expected to deliver 900 bulls to our PowerLine beef bull programme by 2019.
- Launched proprietary indices to help customers identify dairy sires with offspring more resistant to diseases after giving birth, resulting in price and volume increases for high health status bulls.
- Harnessed IVB's IVF technology to expand our genetic improvement solutions and launched new direct transfer frozen embryos in Brazil combining elite female and male genetics.
- Supplied IVF services to a major US dairy customer.
- Prepared to launch our proprietary Genus Sexed Semen technology in key markets.

### Targeting Key Markets and Segments

- Embedded customer segmentation in our dairy business and created a distinct customer experience for different segments.
- Upgraded our proprietary Genetic Management System (GMS 2.0), enabling advanced customisation and incorporation of genomic data.
- Established IVB's operations with new laboratories in the US and Mexico, and expanded operations in Mozambique.
- Delivered efficiency savings by reducing sales and service staff in Europe and reduced distribution costs.

### Sharing in the Value Delivered

- Implemented a new pricing-to-value strategy in the US and UK, based on an 'ABS Value Index'.
- Demonstrated and captured a share of the value of higher fertility genetics with customers in Brazil.
- Increased prices in Latin America by over 20% to counter the impact of exchange rate devaluations.

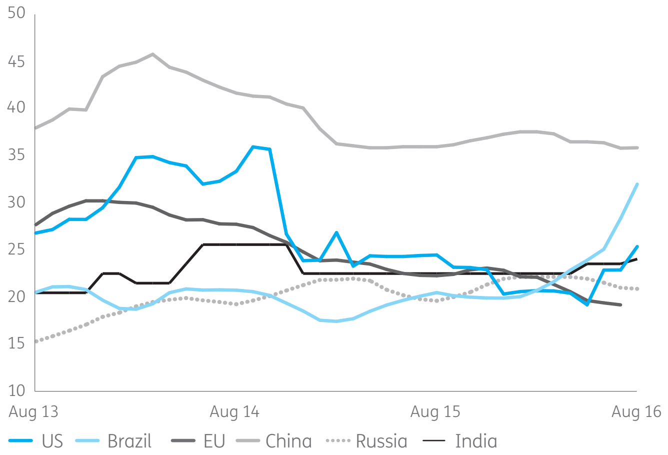
### Priorities for FY17

- Drive profit recovery through focus on value and cost initiatives.
- Accelerate delivery of differentiated genetics produced internally through De Novo partnership.
- Harness new technologies and roll out our proprietary GSS, to build business with new and existing customers.
- Continue to grow IVB with large enterprise customers and distribute frozen direct transfer embryos to medium size customers.
- Focus on the exciting opportunities in beef, by establishing a global team to help us evolve proprietary products, continue developing our technology and enhance differentiation.

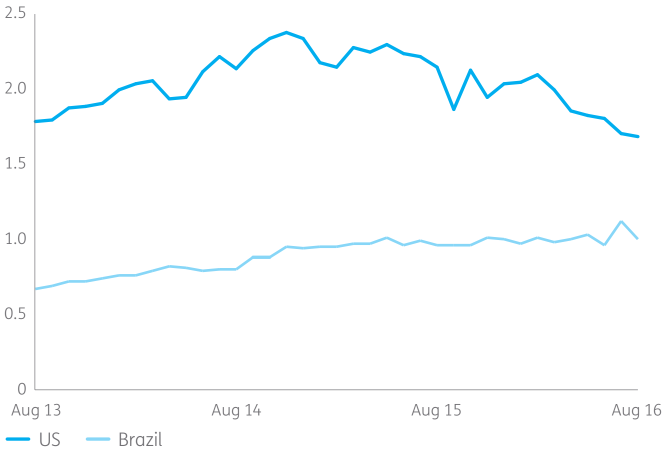
# Operating Review – Genus ABS

| | Actual currency | | | Constant currency |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | Movement % | Movement % |
| Revenue | **158.7** | 167.8 | (5) | (3) |
| Adjusted operating profit | **19.5** | 24.0 | (19) | (16) |
| Adjusted operating profit inc non-controlling interest | **18.2** | 23.5 | (23) | (21) |
| Adjusted operating margin | **12.3%** | 14.3% | (2.0)pts | (1.8)pts |

**Dairy – Key Markets**
Pence per litre




**Beef – Key Markets**
Live cattle £ per kg




## Market

Conditions in the dairy and beef markets affect our customers' profitability and in turn their willingness, at least in the short term, to invest in genetics.

During the year, milk prices remained depressed across major markets, with further declines in the US and Europe. Continued milk production growth in key regions such as EMEA and continued weak import demand from markets such as Russia, China and the Middle East led to prices of the main dairy commodities being between 20% and 50% below their three-year averages. It looks likely that prices will not improve sustainably until early 2017.

In Europe, the continuing trade ban imposed by Russia and weak exports to China, following previous stockpiling, were exacerbated by a supply increase as quotas were lifted and mild weather helped production. In the US, demand has remained solid and milk production growth has slowed, but higher milk imports have affected the supply/demand equation. However, lower feed costs have reduced the impact on operating margins compared with the rest of the globe. In Brazil, the deepening economic recession has led to a further deterioration in dairy demand and a fall in farm-gate prices of 18% in real terms, resulting in the first contraction in milk production since 1993. Meanwhile, the Argentina dairy industry has been badly affected by some of the worst flooding in over a decade.

Beef prices in the US were volatile, with a downward trend in the first half of 2015/16 and a return towards normal levels by the end of the year. In Brazil, cattle prices remained stable in the worsening economy, helped by a combination of female retention, which has reduced finished cattle going to market, and higher exports with the opening of the US as an export destination and the devaluation of the Brazilian Real. The outlook for global beef prices is broadly stable.

## Performance

Adjusted operating profits for Genus ABS fell by 16% in constant currency (21% after minority interest), on the back of a 9% volume decrease and a 3% decline in revenues. Excluding IVB, Genus ABS's revenues were 9% lower. Europe, and to a lesser extent North America, were key contributors to the lower results. In response to the challenging conditions, ABS took robust actions to reduce costs, particularly in Europe, and to raise prices, especially in Latin America to counteract the significant currency depreciation there. Global beef volumes and revenues increased in the year.

In North America, profits decreased by 8% in constant currency, driven by a 9% conventional dairy volume decrease, although this was partially offset by increased sorted semen volumes (up 14%), a higher blend and strong cost management. Beef had another strong year, with volumes up 1% over the record prior year, including the continued increased use of beef semen in dairy cows.

In Europe, profits decreased by 16% in constant currency. The severe weakness in the dairy market drove significant volume decreases in the UK, France and the European distributor business. However, beef volumes increased by 13% as customers sought to trim dairy herd sizes by producing beef cross-bred offspring for slaughter. A strong focus on cost reduction, including reducing employee numbers and improving service margins, also helped to mitigate profit pressures in the second half, even as the market prices fell further.

In Latin America, profits were up 20% in constant currency, despite volumes declining 10% in tough dairy markets, exacerbated by drought in Brazil and flooding in Argentina. In actual currencies, profits reduced as a result of the significant devaluations across the region. In response, Genus ABS took the lead in increasing selling prices in key markets such as Brazil, Argentina and Mexico and by June, prices were on average 24% higher. Our ongoing efforts to manage local supply chain costs and operating expenses have also been beneficial. Beef performed solidly, given the adverse conditions in Brazil and Argentina, with flat volumes.

IVB made a strong contribution to the full year results and exceeded our expectations, delivering revenues of £9.3m and total operating profit of £2.3m in its first full year of ownership.

# Genus Asia
## Strategic Progress – Genus Asia

"We made significant strategic progress with tailoring our global porcine and bovine business models to help us grasp Asia's exciting opportunities for long-term growth, while further mitigating short-term risks."

Jerry Thompson
Chief Operating Officer, Genus Asia

During the year, we made the following progress against our strategic objectives:

### Increasing Genetic Control and Product Differentiation

- Strengthened relationships and expanded our share of business with large integrated pork producers in China, Russia and the Philippines.
- Resumed imports of our latest proprietary genetics to Russia and populated two new contracted nucleus facilities in the Philippines.
- Completed and populated our bull stud in India, a joint venture with BG Chitale, increasing the availability of differentiated elite genetics in the world's largest dairy market, and made our first export from the new facility.
- Reached a historic agreement with the Indian government to import live bulls from the US with the import successfully completed in August 2016.
- Seven of our animals ranked in the top ten Holstein bulls on the Australian national index, following genomic testing.

### Targeting Key Markets and Segments

- Continued to move from owned facilities to contracted porcine production in China, establishing a nucleus partnership for 5,000 sows with Shennong.
- Significantly grew our business in Vietnam, through our partnership with GreenFeed.
- Continued to develop direct relationships with large milk producers in India and grew our distribution network.
- Increased our focus on key accounts and distribution partnerships in other bovine markets.

### Sharing in the Value Delivered

- Invested in product validation trials, to demonstrate the superior performance of PIC's products.
- Extended our use of the porcine royalty model, including three further contracts in China.
- Maintained our bovine pricing-to-value strategy in India, reflecting our higher quality genetics.
- Rolled out value-selling training to our bovine and porcine teams across the region.

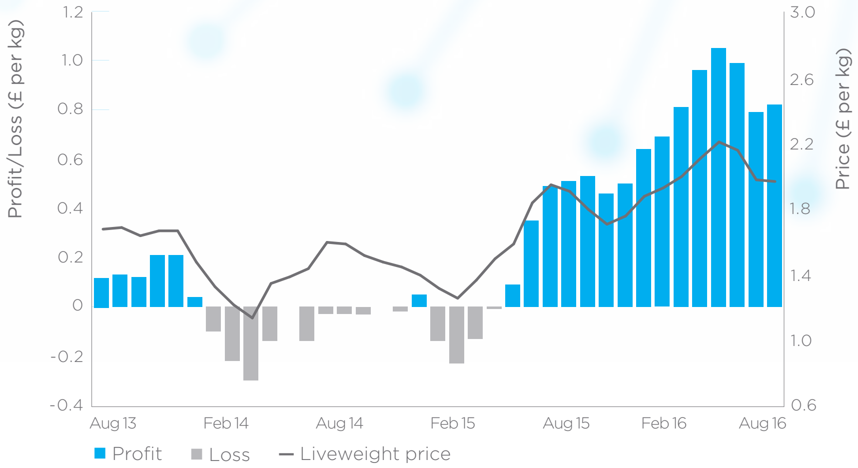
### Priorities for FY17

- Integrate our Asian porcine and bovine operations into the global PIC and ABS businesses, to support the established strategy for each species and help deliver a consistent and compelling customer experience across the world.
- Continue to tailor each strategy for the needs of our Asian markets, to help deliver long-term success.

# Operating Review – Genus Asia

| | Actual currency | | | Constant currency |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | Movement % | Movement % |
| Revenue | **45.1** | 41.4 | 9 | 10 |
| Adjusted operating profit exc JV | **11.3** | 5.7 | 98 | 98 |
| Adjusted operating profit inc JV | **13.1** | 5.5 | 138 | 138 |
| Adjusted operating margin inc JV | **29.0%** | 13.3% | 15.7pts | 15.6pts |

## China Pork Producer Profitability




### Market

Conditions for our porcine business improved significantly from the previous year. In particular, we saw a recovery within China, the world's largest porcine market, following two years of losses in the industry. Rising demand, coupled with limited supplies following reductions in the country's sow herd, placed a premium on available animals and pushed up prices to record highs.

In parallel, the market within Russia rebounded as the country reopened its borders to imports of pigs from North America and the EU. Demand for pork also remained high in our other target markets.

In contrast, conditions for our bovine business were challenging. Dairy prices remained low, reflecting the global picture. Milk prices fell in Australia and are likely to reduce the number of cows and farms within the country. Low prices within China continue to drive consolidation of the country's dairy industry. Although prices in India remained stable, the country experienced a major drought which affected production and demand.

### Performance

2016 was a year of significantly improved performance, increasing operating profit by 138%, with tailwinds from the revitalisation of porcine markets in China and Russia. The performance, however, also shows that the business has benefited from the strategic decisions and investments made in recent years and the tailoring of our business model to the needs of each market.

### Porcine

Overall results were significantly higher than for the preceding year. Volumes rose by 19%, leading to increases of 22% in revenue and over 300% in operating profit including joint ventures in constant currency.

Operating profits in China rose by over £6m, as prices increased and demand for breeding animals grew. Our business also continued to reap the benefits of our move away from owned farms to a more contracted production model, which is helping us reduce farming exposure and commodity price risk. During the year, we signed further multiplication and royalty-based contracts with major producers, as summarised in the case study on page 24.

In Russia, we increased profits by 75% in constant currency through growth in key accounts, following the re-starting of imports to the country. This was also aided by more than doubling our sire-line pricing, to reflect the value delivered by our high-quality genetics. In contrast, profit in the Philippines fell by 9%, mainly due to lower up-front margins during the transition to a royalty business model.

In Vietnam, where we operate in partnership with GreenFeed, profits rose by 92%. We also renewed our porcine franchises in Australia and Korea on improved terms, increasing sire-line pricing significantly in the process, and we signed a new franchise in Ukraine.

Across the region, we continued to expand the use of our royalty model, which provides extra revenue streams and additional resilience in the event of a fall in demand for new breeding animals. Royalty revenues across the region rose by 32%.

### Bovine

Despite difficult market conditions, bovine volumes rose by 2% and operating profits by 8%. In China, we further strengthened our relationships with key distributors and in Russia, performance improved following the refocusing of the business in the prior year.

We continued to build our business in India and strengthened our capabilities in the country with the beginning of operations at our new Brahma stud, a joint venture with BG Chitale (see case study on page 22).

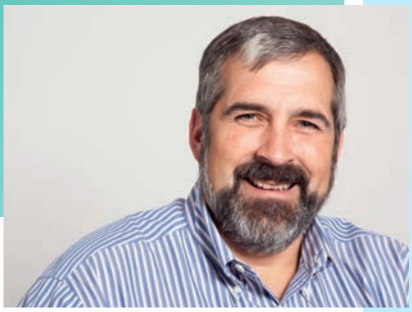
Our Australian business increased operating profit, aided by innovative promotions to mitigate the impact of falling milk prices. Operating profit fell in Japan, however, influenced by fewer top bulls in local rankings and the strength of the US Dollar.

We also invested in skills and structure to drive performance of our bovine business, including appointing our first Regional Director for bovine.

# Genus R&D

## Strategic Progress – Genus R&D

"Our R&D programme delivers increased genetic control and differentiated products for customers, by applying pioneering technologies."



Dr Jonathan Lightner
Chief Scientific Officer and Head of Genus R&D

During the year, we made significant progress on several fronts, with potentially major benefits for animal well-being, customer productivity and the sustainability of protein production.

### Genomic Selection

- Accelerated genetic gain for porcine customers by harnessing genomics and integrated Génétiporc's genes into our genetic improvement programme.
- Expanded our elite dairy female programme from which we sourced 20% of our new Holstein bulls in the US in 2016. In September 2016, we entered into partnership with the US's leading independent Holstein breeder thereby significantly increasing our ability to produce bulls internally.
- Strengthened our beef nucleus herd, which is expected to deliver 900 bulls to our Powerline programme by 2019.
- Introduced TransitionRight™ indices, enabling customers to identify dairy sires that produce daughters more resilient to health problems after giving birth.

### Gene Editing

- Demonstrated the potential benefits of this pioneering technology for animals, customers and consumers, during a transformative year.
- Secured an exclusive global licence to the IP involved in our ground-breaking work with the University of Missouri, which used gene editing to develop the first pigs resistant to PRRSv.
- Agreed an exclusive licence and collaboration with Caribou Biosciences, giving us access to its market-leading and proprietary CRISPR-Cas9 gene editing technology and know-how, which will help us accelerate our work on PRRSv and explore other applications.
- Secured an exclusive global licence from the Washington State University to gene editing work targeting BRD.

### Gender Skew

- Continued to invest in our proprietary GSS technology, thoroughly testing it to ensure it can deliver the highest calibre product on a global and commercial scale, with field trials resulting in thousands of successful pregnancies.
- Pursued our legal case with ST.

### Priorities for FY17

- Continue to develop proprietary indices, built around traits of economic importance to customers.
- Continue to work with the Roslin Institute on genotype by sequencing, which has the potential to be the next leap in genomic science.
- Harness our collaboration with Caribou Biosciences and strengthen internal skills, to help build a gene editing trait development capability.
- Prioritise the successful launch and roll-out of GSS.
- Develop our elite dairy female programme and ability to produce bulls internally, working closely with our new partner.
- Develop relationships with regulatory authorities to facilitate the future approval of gene edited products.

# Operating Review – Genus R&D

| | Actual currency | | | Constant currency |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | Movement % | Movement % |
| Research | **8.0** | 4.6 | 74 | 67 |
| Porcine product development | **13.5** | 11.6 | 16 | 12 |
| Bovine product development | **12.9** | 12.4 | 4 | – |
| Net expenditure in R&D | **34.4** | 28.6 | 20 | 16 |

## Performance

Our investment in R&D for the year increased by 16% in constant currency and capital spending also increased. This reflected our investments in gene editing capabilities and licensing, genome science, advancing our GSS initiative, and furthering our computational capabilities in bovine and beef product development. In porcine product development, increases in global volume and related dissemination costs, along with lower slaughter prices and higher product validation costs, drove the year over year increase. In September 2016, we also formed a new strategic partnership (De Novo Genetics) with the world's leading independent Holstein breeder, strengthening our ability to produce our own elite bulls.

As in previous years, our research focused on genomic evaluation, gender skew and animal health and welfare. Research expenditure increased by 67% this year, in part due to significant advancements in gene editing and our partnerships with the University of Missouri and Caribou Biosciences, as well as related legal expenses and capability building. We also invested in core informatics capabilities and expanded research efforts in a number of promising areas.

In genomic evaluation, we continued to explore the frontiers of genomic information and its use in animal genetic improvement. We are actively exploring genotype by sequencing approaches that could be applied across our animal systems. We successfully initiated our multi-year collaboration with the Roslin institute, exploring genotype by sequencing opportunities in our PIC system. This project is partially funded by a grant from the UK government.

In gender skew, where costs were largely capitalised, we completed additional testing of our commercial scale capabilities. We completed final commercial performance tests of our GSS technology, refined our manufacturing processes and initiated the production and inventory of units for commercial sale, pending the outcome of our Court proceedings. We also invested

in technology improvements to the current GSS system, which included new detection approaches with the promise of further improvements in fertility. We also continue to build our internal capabilities in intellectual property development, regulatory affairs and research strategy.

Bovine product development expenditure was unchanged in constant currency. We invested in both dairy and beef in our internal heifer nucleus breeding programmes, and in genetic services resources to develop proprietary breeding indices and predictive genomic mating, to deliver higher genetic control and differentiation. We also made several key dairy bull acquisitions to strengthen our global line up. Depreciation of dairy bulls increased year over year, reflecting the continued rising cost of competitive bulls in the genomic era, however progeny testing costs and management overheads were reduced.

Porcine product development expenditure increased by 12%, driven in large part by a decline in slaughter by-product revenues from our nucleus herds resulting from lower pork prices, partially offset by lower feed prices, and by the non-recurrence of a Canadian government support payment in FY15. We also increased investment in growing the breadth and depth of our genomic testing of animals and continued to expand our global product validation programme.

# Financial Review

> "Genus delivered a solid financial performance in the year ended 30 June 2016."

Genus delivered a solid financial performance in the year ended 30 June 2016, with adjusted profit before tax up 7% (up 10% in constant currency) and cash conversion of 88%. Adjusted earnings per share were also up 7% (10% in constant currency). On a statutory basis, profit before tax was 5% higher and earnings per share were 23% higher in actual currency, primarily due to a lower statutory tax rate. We continue to use adjusted results as our primary measures of financial performance as they better reflect our underlying progress. Unless stated otherwise, this financial review quotes constant currency adjusted growth rates, which better reflect the Group's underlying performance.

The effect of exchange rate movements on the translation of our overseas profits was to reduce the Group's adjusted profit before tax for the year by £1.5m or 3% compared with FY15. At the end of the period, Sterling devalued sharply following the UK referendum on Brexit. While this had little effect on 2015/16 profits, it had a significant translational impact on the year-end balance sheet.

## Revenue

Revenue declined by 3% in actual and constant currency to £388.3m (2015: £398.5m) during the period. In porcine, Asia revenue growth of 22%, primarily in Russia and China, was offset by the planned continued reduction in up-front sales in Europe. Lower porcine by-product sales were the result of lower pig prices and there was a 4% decline in global bovine revenue, due to the poor dairy market conditions.

## Adjusted Operating Profit Including Joint Ventures

Adjusted operating profit including JVs was £54.3m (2015: £51.2m), up 9% in constant currency and 6% in actual currency. Genus's share of JV profits was higher at £6.4m (2015: £4.6m), helped by the strong performance of the Besun JV in China due to improved market conditions and lower production costs.

Profits in Genus Asia, excluding JVs, almost doubled with 98% growth, helped by Asia Porcine growing by more than 200%. PIC China performed very strongly, buoyed by exceptional market conditions and reduced production costs resulting from the shift from owned farms to more contracted production. The Russia, Vietnam and franchise porcine businesses also achieved strong double-digit growth, with Russia helped by the country reopening its borders to pig imports. Asia Bovine grew 8%, helped by improvements in our Australia and Russia businesses following restructuring in the prior year.

Genus PIC had a strong year, with profits up 9%. Volume growth of 2% continues to be affected by the shift to royalty contracts, with volumes recognised later in the sales cycle. There was also some reduction in up-front volumes in Europe during the second half of the year, as market conditions remained challenging for our customers.

**Stephen Wilson**
Group Finance Director

| Adjusted results* | Actual currency 2016 £m | 2015 £m | Movement % | Constant currency** Movement % |
|---|---|---|---|---|
| Revenue | **388.3** | 398.5 | (3) | (3) |
| Operating profit | **49.3** | 47.2 | 4 | 6 |
| Operating profit inc JVs | **54.3** | 51.2 | 6 | 9 |
| Profit before tax | **49.7** | 46.6 | 7 | 10 |
| Basic earnings per share (pence) | **60.7** | 56.8 | 7 | 10 |

| Statutory results | 2016 £m | 2015 £m | Movement % |
|---|---|---|---|
| Revenue | **388.3** | 398.5 | (3) |
| Operating profit | **58.6** | 59.5 | (2) |
| Profit before tax | **60.9** | 57.8 | 5 |
| Basic earnings per share (pence) | **81.1** | 65.7 | 23 |
| Dividend per share (pence) | **21.4** | 19.5 | 10 |

* Adjusted results are before net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, share-based payment expense and exceptional items. Adjusted results are the measures used by the Board to monitor underlying performance at a Group and operating segment level.
** Constant currency percentage movements are calculated by restating 2015/16 results at the average exchange rates applied in FY15.

| Exchange rates | Average 2016 | Average 2015 | Closing 2016 | Closing 2015 |
|---|---|---|---|---|
| US Dollar/£ | **1.47** | 1.57 | **1.34** | 1.57 |
| Euro/£ | **1.33** | 1.32 | **1.20** | 1.41 |
| Brazilian Real/£ | **5.47** | 4.26 | **4.28** | 4.89 |
| Mexican Peso/£ | **25.38** | 22.68 | **24.66** | 24.68 |

| Adjusted profit before tax | Actual currency 2016 £m | 2015 £m | Movement % | Constant currency Movement % |
|---|---|---|---|---|
| Genus PIC | **64.2** | 57.2 | 12 | 9 |
| Genus ABS | **19.5** | 24.0 | (19) | (16) |
| Genus Asia | **11.3** | 5.7 | 98 | 98 |
| R&D | **(34.4)** | (28.6) | (20) | (16) |
| Central | **(11.3)** | (11.1) | (2) | 4 |
| Adjusted operating profit | **49.3** | 47.2 | 4 | 6 |
| Attributable to non-controlling interest | **(1.4)** | (0.6) | (133) | (183) |
| Share of JV profits* | **6.4** | 4.6 | 39 | 61 |
| Adjusted operating profit inc JV | **54.3** | 51.2 | 6 | 9 |
| Net finance costs | **(4.6)** | (4.6) | – | 2 |
| Adjusted profit before tax | **49.7** | 46.6 | 7 | 10 |

* Excludes net IAS 41 valuation movement in biological assets and taxation.

Dairy producers have suffered two years of reducing milk prices and Genus ABS began a vigorous drive to mitigate the profit impact of these weak market conditions. Operating profit fell 16% before minority interest, on a volume decline of 9%. The actions focused on cost efficiencies in Europe and North America and pricing in Latin America. IVB performed ahead of expectations in its first full year of ownership.

R&D costs increased by 16%, as planned, as Genus pursued key strategic initiatives to further strengthen its proprietary differentiated offerings. This included intellectual property creation and protection in gene editing capabilities, aided by our new partnerships with the University of Missouri and Caribou Biosciences, and further advances in our GSS initiative. We also continued to invest in product development, including expansion of the beef and dairy elite heifer programmes, which produced encouraging results. Net porcine product development costs also increased, driven largely by the decline in slaughter by-product revenues from our nucleus herds resulting from lower pork prices.

# Financial Review continued

## Performance by Species

The table below shows our global performance by species, after allocating product development costs specific to each species.

Dairy and beef revenues declined 4% and volumes declined 6% in tough dairy markets, with Europe and North America particularly challenging. Operating profit declined by 32% due to lower volumes and adverse currency cross rates. Actions are continuing to reduce cost run rates and increase selling prices in key markets.

Porcine revenues grew by 1%, with royalty income up 17% to £97.8m. Volumes were up 4% (including Agroceres PIC, our JV in Brazil), with growth strongest in Asia. Profits were up 22% on 2015, with growth in all regions, a focus on pricing appropriately for the value of our genetics and strong execution of our business model.

| | Actual currency | | | Constant currency |
|---|---|---|---|---|
| **Performance by species** | **2016 £m** | 2015 £m | Movement % | Movement % |
| **Revenue** | | | | |
| Dairy and beef | **172.8** | 183.4 | (6) | (4) |
| Porcine | **207.5** | 201.3 | 3 | 1 |
| R&D | **8.0** | 13.8 | (42) | (43) |
| | **388.3** | 398.5 | (3) | (3) |
| **Adjusted operating profit inc JV** | | | | |
| Dairy and beef | **9.1** | 14.5 | (37) | (32) |
| Porcine | **64.5** | 52.4 | 23 | 22 |
| Central and research | **(19.3)** | (15.7) | (23) | (16) |
| | **54.3** | 51.2 | 6 | 9 |

## Finance Costs

Net finance costs remained at £4.6m (2015: £4.6m) and include IAS 19 pension interest of £2.2m (2015: £2.3m). The cost of higher average borrowings in the year, following recent acquisitions and the investment in GSS technology, was offset by interest savings from the lower financing rates achieved in the new facility agreement and the maturing of fixed interest rate swaps.

## Exceptional Items

There was a £36.3m net exceptional credit in 2016 (2015: £5.1m expense), including an exceptional credit of £43.9m, from changing the index used for pension and deferred pension increases in the Milk Pension Fund from RPI to CPI, and a £0.3m settlement gain related to the Milk Pension Fund. Exceptional costs were £6.9m for ongoing legal fees and damages in Genus ABS's case against ST, £0.2m for acquisition and integration related expenses, primarily St Jacobs and IVB, and other items of £0.8m including restructuring costs.

## Statutory Profit Before Tax

The table below sets out a reconciliation between adjusted profit before tax and statutory profit before tax:

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Adjusted profit before tax** | **49.7** | 46.6 |
| Operating profit attributable to non-controlling interest | **1.4** | 0.6 |
| Net IAS 41 valuation movement on biological assets in joint ventures and associates | **1.9** | (1.0) |
| Tax on joint ventures and associates | **(1.4)** | (0.7) |
| Adjusting items: | | |
| Net IAS 41 valuation movement on biological assets | **(17.1)** | 24.9 |
| Amortisation of acquired intangible assets | **(6.1)** | (6.1) |
| Share-based payment expense | **(3.8)** | (1.4) |
| Exceptional items | **36.3** | (5.1) |
| Statutory profit before tax | **60.9** | 57.8 |

Our statutory profit before tax was £60.9m (2015: £57.8m). The statutory results benefited from the £36.3m net exceptional credit described above but were reduced by a £17.1m decline (2015: £24.9m increase) in the net IAS 41 valuation of biological assets (see below). These items, which tend to be volatile and mostly non-cash, are less representative of the Group's underlying performance and have been excluded from adjusted results.

## Taxation

The effective rate of tax for the year, based on adjusted profit before tax, was 25.8% (2015: 26.0%). The effective rate remains higher than the UK corporate tax rate. This is due to the mix of overseas profits, particularly the proportion of profits generated in the US and Latin America, where the statutory tax rates are typically between 30 and 39%, and the impact of withholding taxes on the repatriation of funds to the UK.

The tax rate on statutory profits was 19.7% (2015: 31.1%). In addition to the factors mentioned above, there was a favourable impact on the statutory tax rate in the year, due to the reversal of deferred tax at US rates on the reduction in the IAS 41 biological assets valuation, while the exceptional pension credit carried deferred tax at 18%.

### Earnings Per Share

Adjusted basic earnings per share increased by 7% to 60.7 pence (2015: 56.8 pence) and rose 10% in constant currency. Basic earnings per share on a statutory basis were 81.1 pence (2015: 65.7 pence), an increase of 23%, reflecting the lower statutory tax rate in the year.

### Biological Assets

A feature of the Group's net assets is its substantial investment in biological assets, which under IAS 41 are stated at fair value. At 30 June 2016, the carrying value of biological assets was £354.4m (2015: £315.9m), as set out in the table below:

| Biological assets | 2016 £m | 2015 £m |
|---|---|---|
| Non-current assets | 264.6 | 242.7 |
| Current assets | 66.4 | 50.2 |
| Inventory | 23.4 | 23.0 |
| | 354.4 | 315.9 |
| Represented by: | | |
| Porcine | 184.7 | 148.1 |
| Dairy and beef | 169.7 | 167.8 |
| | 354.4 | 315.9 |

The movement in the overall carrying value of biological assets, excluding the effect of exchange rate translation increases of £49.8m, includes:

- a £9.4m increase in the carrying value of porcine biological assets, due principally to an increase in the number of animals sold on royalty contracts; and
- a £26.5m decrease in the carrying value of dairy and beef biological assets, arising from the impact of lower current year volumes from dairy bulls and an increase in the proportion of future semen sales from younger genomic animals not yet in our asset base.

The historical cost of these assets, less depreciation, was £42.5m at 30 June 2016 (2015: £34.1m), which is the basis used for the adjusted results.

### Retirement Benefit Obligations

The Group's retirement benefit obligations at 30 June 2016, calculated in accordance with IAS 19 and IFRIC 14, were £44.5m (2015: £63.1m) before tax and £34.9m (2015: £49.9m) net of related deferred tax. The largest element of the liability relates to the multi-employer Milk Pension Fund, where the deficit reduced due to the change in pension increases from RPI to CPI, partially offset by the impact of falling bond yields. We account for this scheme on the basis of Genus being responsible for 75% of the plan's IAS 19 deficit, together with the IFRIC 14 additional liability for agreed deficit repair contributions in excess of this valuation.

During the year, contributions payable in respect of the Group's defined benefit schemes amounted to £6.7m (2015: £6.1m).

### Cash Flow

Cash generated by operations remained solid at £43.3m (2015: £50.7m). Conversion of adjusted operating profit into cash was 88% (2015: 107%) before capital expenditure, investments, interest, tax and dividends, with 2015 benefiting from the exit from the Quebec porcine nucleus.

The cash outflow from investments was £7.2m, primarily relating to the acquisition of St Jacobs and an investment in Caribou Biosciences. This compares with £9.6m, net of cash acquired, from the acquisition of Birchwood and IVB in 2015. The increase in capital expenditure of £3.8m to £18.6m (2015: £14.8m) included investment in a licence to Caribou Bioscience's gene editing technology and in GSS capacity and technology. The total cash outflow for the year after these investments, interest, tax and dividends was £3.7m (2015: inflow £1.9m).

| Cash flow (before debt repayments) | 2016 £m | 2015 £m |
|---|---|---|
| Cash generated by operations | 43.3 | 50.7 |
| Interest, tax and dividends | (25.5) | (27.0) |
| Investments, net of cash acquired | (7.2) | (9.6) |
| Capital expenditure | (18.6) | (14.8) |
| Other | 4.3 | 2.6 |
| | (3.7) | 1.9 |
| Adjusted operating profit | 49.3 | 47.2 |
| Cash conversion | 88% | 107% |

### Net Debt

Net debt increased from £71.8m to £89.7m at 30 June 2016, primarily due to exchange movements increasing net debt by £13.6m, as most of our borrowings are in US Dollars. These exchange movements were particularly pronounced following the UK's decision to leave the EU.

During the year, we agreed new five-year borrowing facilities on improved terms. At the end of June 2016 there was substantial headroom of £49.8m under the renewed facilities of £169.7m, which run to February 2021. The Group's financial position remains strong.

Our borrowing ratios are strong. Interest cover was 35 times (2015: 32 times). The ratio of net debt to EBITDA, as calculated under our financing facilities, moderately increased to 1.4 times (2015: 1.2 times) primarily due to the impact of exchange rate movements on our US Dollar borrowing.

### Return on Invested Capital

We measure our return on invested capital on the basis of adjusted operating profit including JVs after tax, divided by the operating net assets of the business, stated on the basis of historical cost, excluding net debt and pension liability. This removes the impact of IAS 41 fair value accounting, the related deferred tax and goodwill. The return on invested capital decreased to 19.1% after tax (2015: 21.7%). This reduction largely reflects the translational impact on the balance sheet of exchange rate movements at the end of the year.

### Dividend

Reflecting the Board's continuing confidence in the Group's prospects, it is recommending to shareholders a final dividend of 14.7 pence per ordinary share, resulting in a total dividend for the year of 21.4 pence per ordinary share, an increase of 10% for the year. Dividend cover remains consistently strong, with the dividend covered 2.8 times by adjusted earnings (2015: 2.9 times).

**Stephen Wilson**
**Group Finance Director**
7 September 2016

# Our People and Culture

"We are a business rooted in science but built around our people."

Catherine Glickman
Group HR Director and Chair of the CSR Committee

## Our Approach

We are a business rooted in science but built around our people. We have employees in 26 countries covering a wide range of disciplines, from PhD qualified geneticists and veterinarians to livestock technicians and accountants. Over the last year, to support the development of an increasingly proprietary offer for customers, we have focused on recruiting, retaining and developing employees who can help us explore and harness what science makes possible.

Our global framework consists of ways to attract, engage, motivate and reward: it is now well embedded in every business. The framework is built on our values, which were developed with input from colleagues. The values underpin our culture of respect, openness and fairness, guiding how we work and behave.

## Using Our Diversity

Genus takes diversity seriously. We appoint the best people to do the job, with a focus on talent right across the leadership team. The appointment of Lysanne Gray as a Non-Executive Director has enhanced Board diversity. Lysanne brings financial and operational expertise to the Board from the food sector. We continue to deploy our expert teams globally, particularly in Technical Services, Genetic Services and Animal Health, using their

### Our progress

The policies and practices that helped our Company increase performance during the year are also unlocking potential for the future. Key achievements in the year have included:

**Second global employee survey**

More than three-quarters of employees responded and among the highlights were that:

- 89% of respondents understood the Genus vision and 78% felt regularly informed about business progress and plans (an increase of 8% on the previous survey).
- 87% felt Genus to be pioneering animal genetic improvement and 79% understood our business strategy.
- 83% said they enjoy working at Genus and the same number planned to be working here in a year.

**Consolidating our global performance management process**

All staff have clear performance objectives and two reviews per year. These assess progress, enable career discussions and inform talent management.

**Talent and succession planning**

Processes have been embedded across the business, with robust discussions on the quality and depth of successors, emergency cover and stretching development plans.

**Continued significant investment in employee development**

We aim for every employee to have a development plan and offer support to help them succeed, from formal training to coaching and mentoring. We have also continued to roll out bespoke development programmes, including our Advanced Leadership Programme for senior managers, for which we ran a very successful event in Dublin, and our programme for people managers, Managing High-Performing Teams, which we extended to our managers in Asia.

**Operational training expansion**

We have embraced important areas such as anti-bribery and corruption, training 96% of staff and exceeding our FY17 target, animal well-being, safe animal handling and health and safety, which has been a core focus for us this year. We have also continued to strengthen our sales academies for both ABS and PIC, which deliver training for key account managers around the world and help us enhance our relationships with current and potential customers.

**Enhanced employee engagement**

We have maintained our systematic programme that shares information about the business and nurtures effective dialogue with employees. We also introduced innovations, such as broadcasting our 2015 Global Leadership Conference to all employees through a live webcast and Q&A session.

skills and expertise to support local operations. We continued to bring in new talent: a particular focus this year has been in building our Research & Development team, with the recruitment of PhD geneticists, molecular biologists and embryologists. The table below shows our gender diversity across the business.

| Work levels | Male | Female | Total | % Female |
|---|---|---|---|---|
| Board Directors | 7 | 1 | 8 | 13 |
| GELT | 6 | 2 | 8 | 25 |
| Other employees | 1,856 | 799 | 2,655 | 30 |

**Human Rights**

We are committed to protecting the human rights of our employees and the people who come into contact with our business. During the year, we continued to comply with our human rights policy.

**Looking Further Ahead**

In 2017, our focus will be on resourcing business growth and training staff to support the initiatives we are delivering, whilst sustaining performance management, development and talent management. We will also review our reward mechanisms, specifically our Group incentive plans and staff commission structures, to ensure they are aligned with the needs of the business.

## Case Study
## Enhancing Recruitment

We are committed to nurturing talent to create a strong internal succession plan, coupled with recruiting new and specialist skills, as we evolve as an agricultural biotechnology company.

During the year, we launched a dedicated recruitment portal – linked to our corporate website – to showcase what is special about our Company and outline the wide range of roles we offer. The site contains short films of colleagues giving their views and provides links to our global business websites for specific vacancies.

We have also encouraged employee referrals for recruitment, with colleagues across the Company harnessing their personal networks to bring in talent.

We recruited across a range of roles, including a production team to deliver our new GSS products offer for bovine customers and personnel to help us offer IVF in the United States and Mexico. We invested in senior roles for our R&D team, including applied genomics, trait development and intellectual property expertise. We also continued to promote talent from within, with examples including the promotion of Dr Katie Olson to Global Director for Dairy Product Development within ABS.

# Responsible Business

We are committed to delivering results responsibly. 'Responsible' is one of our core values as a business and we have developed policies, practices and an organisational culture that ensures our Company and all the people within it act in an ethical, honest and trustworthy manner at all times.

This year, we have developed a new online portal to communicate our approach, practices and impact. This can be found by visiting our website at www.genusplc.com. The portal provides more detailed and regularly updated information, to complement the summary we provide below.

### Our Foundation for Success

Our commitment to operating responsibly is overseen by the Board. The Corporate Social Responsibility ('CSR') Committee defines our strategy, reviews our policies and practices, monitors external developments and advises the Genus Executive Leadership Team (GELT) and the Audit Committee. It recommends annual goals and initiatives, and identifies the key performance indicators for monitoring and reporting our performance, which are summarised opposite.

The Committee comprises senior leaders who lead different aspects of the programme. They meet quarterly to set objectives and review progress. The full list of members is provided on our website.

A dedicated sub-committee focuses on animal well-being. Among its achievements this year were an update of the Company's global principles for animal well-being, including global standards and policies, and the introduction of new online training, which is mandatory for all employees, irrespective of their role. The membership of this sub-committee can also be found on our dedicated 'Responsibility' page on our website.

### Our Framework and Performance

We translate our commitment to responsible business into a framework involving five pillars, which are summarised opposite together with our key achievements and objectives. More detailed information on our performance is included on our website.

We have previously included a section on employees in this framework but have removed this to avoid duplication of material in the 'Our People and Culture' section of this report. Achievements against the targets are included on page 40.

### Greenhouse Gas ('GHG') Reporting

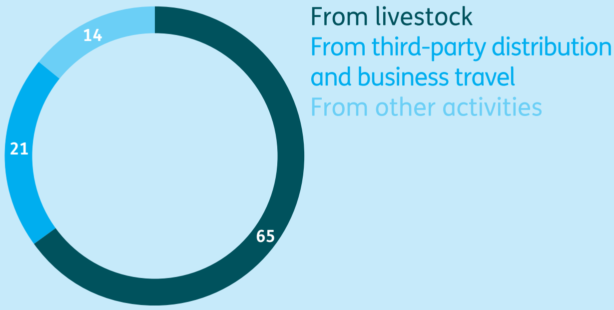
Our GHG emissions are primarily methane produced by our animals and carbon dioxide ('$CO_2$') from consuming fuel and other materials, and transport. Our primary intensity ratio is based on animal weight, which is a key driver of our GHG emissions. Our secondary intensity ratio is based on turnover.

Our primary intensity ratio includes emissions which are impacted mainly by the number and age of animals but also by emissions from our direct distribution and travel. Animal weight reduced by 2,500 tonnes, driven by exiting owned farms in the US and China, and emissions reduced as a result. However, emissions from other sources such as direct distribution remained constant and as a result the primary intensity ratio increased. Our secondary intensity ratio was stable year to year.

### Our Reporting Approach

We use operational control as our reporting approach. We have determined and reported the emissions we are responsible for within this boundary and believe there are no material omissions.

**GHG Emissions for 2016 %**




GHG data is therefore reported for assets, which are mainly rented or leased, that are otherwise not referred to elsewhere in the financial statements. We omitted JVs and some livestock held at third-parties due to our limited authority to introduce and implement operating policies.

| Emissions from | 2016 Tonnes of $CO_2e$ | 2015 Tonnes of $CO_2e$ |
|---|---|---|
| Scope 1 – combustion of fuel, livestock emissions and direct distribution and travel | **64,655** | 68,562 |
| Scope 2 – electricity, steam, heat and cooling purchased | **16,798** | 22,569 |
| **Total scope 1 & 2** | **81,453** | 91,131 |
| Scope 3 – material usage and waste and indirect distribution and travel | **28,433** | 21,160 |
| **Total emissions** | **109,886** | 112,291 |
| **Primary intensity measure – Animal weight (tonne)** | **10,249** | 12,723 |
| **Secondary intensity measure – Turnover (£m)** | **388.3** | 398.5 |
| **Primary intensity ratio – Scope 1 & 2 ($tCO_2e$/tonne animal weight)** | **7.95** | 7.16 |
| **Secondary intensity ratio – Scope 1, 2 & 3 ($tCO_2e$/£m turnover)** | **283** | 282 |

Annual emissions figures have been calculated based on actual ten-month data for July to April extrapolated to full year.

**Assessment methodology**
World Resources Institute/World Business Council for Sustainable Development. *'The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard'*

DEFRA *'Guidance on how to measure and report your greenhouse gas emissions'*

DEFRA *'Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance'*

**Emissions factor data source**
IPCC *'Guidelines for National Greenhouse Gas Inventories'*
DEFRA/DECC *'Conversion Factors for Company Reporting'*

**Link to Strategy**

1 Increasing Genetic Control and Product Differentiation
2 Targeting Key Markets and Segments
3 Sharing in the Value Delivered

Visit **www.genusplc.com** to read more about our Responsible Business

| What we do | Highlights | What we plan to do next |
|---|---|---|
| **Operate Safely**<br>Ensuring a safe working environment for our colleagues<br>1, 2 | • 83% of staff completed training tailored to their role (target 90%).<br>• Significant improvement in incident reporting, and reviewed by COOs.<br>• Improved reporting resulted in an increase in incidents on owned property in 2015/16, with actions taken to mitigate risk.<br>• As a result of incident types, 94% of those working directly with animals received advanced training in animal handling and we conducted a safe driving initiative in the UK. | • Reduce our vehicle incident frequency rate in the UK and US fleets.<br>• Increase Near-Miss reporting for all owned production sites.<br>• Reduce number of recordable incidents on non-owned premises. |
| **Animal Well-Being**<br>Continually improving animal welfare, through proven science-based initiatives<br>1, 2, 3 | • Introduced new animal well-being training, completed by 97% of employees.<br>• Continued our global Pork Quality Assurance ('PQA') based training in PIC owned production facilities.<br>• Introduced new diet to improve bull well-being in all ABS and JV studs.<br>• All ABS and JV studs were audited and actions executed.<br>• Upgraded our Genetic Nucleus site in Canada, PIC Aurora. | • Continue our programme of PQA-based training.<br>• Roll-out global animal care and well-being standards and processes in PIC owned production.<br>• Continue audits at ABS owned and JV studs.<br>• Continue upgrade of PIC owned production facilities in the United States and Canada. |
| **Community**<br>Being a responsible corporate citizen, within our communities<br>1, 2 | • Continued to respond to crises that affected those who work with us, providing practical support.<br>• Continued supporting the charity Send a Cow, with 61 cows now provided through the charity.<br>• Recruited over 150 staff into our farms from local communities across our PIC and ABS production sites globally. | • Continue to respond to crises, support Send a Cow and recruit into our farms from local communities. |
| **Environment**<br>Reducing the environmental impact of protein production<br>1, 2 | • Continued external audits of Genus PIC's waste management systems, to cover 80% of animals on owned sites.<br>• Improved feed efficiency by 0.02kg of feed per kg of pork.<br>• Upgraded the Genus ABS production estate, including landscaping our Dekorra site with 500 trees. | • Continue Genus PIC's external audits, to cover 80% of animals on owned sites.<br>• Improve feed efficiency by 0.02kg of feed per kg of pork. |
| **Food Quality and Security**<br>Providing expertise and products that increase the production of high-quality protein<br>1, 2, 3 | • Using genomic selection, the value of PIC genetics improved by $3.15, providing highly productive, high health pigs (see page 16 for more information).<br>• Reduced genetic lag in the PIC supply chain to 3.45 years.<br>• Improved milk production and herd sustainability with TransitionRight™, Genetic Management Service (GMS 2.0), IVF technology and ABS Neo.<br>• Introduced high-quality dairy genetics into India through our new JV bull stud. | • Continue to increase the rate of genetic improvement to help produce highly productive, high health pigs.<br>• Maintain current genetic lag levels across the global PIC supply chain.<br>• Improve milk production and herd sustainability through IVF technology, genetic audits and mating tools, and the use of relevant trait indices in genetic selection.<br>• Export of live elite bulls to step up genetic merit in India. |

# Letter from the Chairman

"The latest independent external evaluation of the Board shows that we continue to provide the strong and effective leadership Genus needs."

**Dear Shareholder**

In my previous letters, I have noted that strong governance is a business necessity, with a critical influence on the Group's ability to implement its strategy and achieve long-term success. I am pleased to report that the latest independent external evaluation of the Board shows that we continue to provide the strong and effective leadership Genus needs.

At the same time, we recognise the need to further develop our governance practices. In the year ahead, we will maintain our focus on strategy, including the competitive landscape; developing our risk agenda in light of our strategy; and succession planning, including diversity and the skills mix on the Board. This will help us to ensure Genus creates value for all our stakeholders, whether through our high-quality and differentiated offer for customers, rewarding work for our people, support for suppliers and communities, or through growth and returns to shareholders.

Set out opposite are some of the governance highlights of the year. More information on each area, and our governance activities more generally, can be found in the Corporate Governance Statement on pages 50 to 87.

Bob Lawson

7 September 2016

**Bob Lawson**

Chairman of the Board

## Corporate Governance Highlights

### Providing Effective Leadership
An independent external review of the Board's performance showed particular strengths in Board culture, strategy, financial reporting, remuneration and forward planning.

See page 54

### Increasing the Board's Diversity and Experience
The appointment of Lysanne Gray, our first female Non-Executive Director, adds further relevant experience to the Board, including knowledge of the food industry.

See pages 57 to 58

### Maintaining an Independent Board
The Board has a large majority of independent Directors, with six Non-Executives (including the Chairman) and two Executive Directors.

See pages 46 to 47

### Ensuring Strategic Oversight
The Board held its annual strategy review in January and received regular updates on strategy and business development during the year.

See pages 52 to 53

### Enhancing the Board's Knowledge of the Business
To give the Board first-hand experience of our business and markets, the Directors spent a week visiting our US operations.

Lysanne Gray underwent a thorough induction, including site visits, workshops, and meetings with Executive Directors, senior management and the auditor Deloitte LLP.

See pages 53 to 54

### Continuing to Comply
Genus complied in full with the UK Corporate Governance Code (the 'Code') except for provision E.2.3, as the CEO was unable to attend the 2015 AGM due to illness.

### Engaging our Shareholders
The Executive Directors met institutional investors owning more than half our share capital, including eight of our ten largest shareholders, as well as many potential investors.

See page 56

## Our Approach to Reporting on Corporate Governance

This year, we have used the key Code principles as the framework for our Corporate Governance Report. The content of each section is outlined below.

### Leadership
Includes the composition of the Board and its Committees, the Directors' roles and responsibilities, and the Board's main activities in the year.

See pages 46 to 53

### Effectiveness
Includes Board induction and training, the outcome of this year's external Board evaluation, progress against the recommendations from the 2015 evaluation, and the Nomination Committee's activities in the year.

See page 54 and pages 57 to 58

### Accountability
Includes an explanation of our risk management and internal controls, and the Audit Committee's activities during the year.

See page 55 and pages 59 to 61

### Relations with Shareholders
Includes our investor relations calendar, data on the shareholders we met during the year, and the key themes discussed at investor meetings.

See page 56

### Remuneration
Includes an explanation of our approach to remuneration, our revised remuneration policy (which is being put to shareholders at the AGM), and a report on the Directors' remuneration for the year.

See pages 62 to 85

# Board of Directors and Company Secretary

**Bob Lawson†*
Non-Executive Chairman
Nomination Committee Chair**

**Board Appointment** – November 2010

**Skills and Experience**
Bob has significant experience of leading international businesses, including through operational and culture changes, and a deep understanding of listed companies and corporate governance.

**Career**
Bob's executive career spanned several UK and continental groups, including ten years as Chief Executive of Electrocomponents plc and three years as Managing Director of Vitec Group plc. He was appointed Non-Executive Chairman of Eurocell plc in January 2015 and retired as Chairman of the Federation of Groundwork Trusts in November 2015. Bob retired as Non-Executive Chairman of Barratt Developments plc in November 2014.

**Karim Bitar†
Chief Executive**

**Board Appointment** – September 2011

**Skills and Experience**
Karim has extensive experience of leading international, science-based organisations. His strategic review of Genus in 2012 resulted in a new vision, strategy, structure and core values. He has a BSc in Biochemistry from the University of Wisconsin and an MBA from the University of Michigan.

**Career**
Prior to joining Genus, Karim worked for more than 15 years for Eli Lilly and Company, where he was President of Lilly Europe, Canada and Australia. An ex-McKinsey and Company consultant, he also held management roles at Johnson and Johnson, and the Dow Chemical Company.

**Stephen Wilson
Group Finance Director**

**Board Appointment** – January 2013

**Skills and Experience**
Stephen has worked in France and the US and has wide-ranging experience of mergers and acquisitions, financing, strategy and investor relations. He is a Fellow of the Chartered Institute of Management Accountants and holds a degree in Mathematics from the University of Cambridge.

**Career**
Stephen was previously Executive Vice President and Chief Financial Officer of Misys plc. Prior to Misys, he spent 25 years at IBM, in roles encompassing finance, business development and change programmes. He was a Non-Executive Director of Xchanging plc, where he chaired the Audit Committee until its acquisition by CSC in May 2016.

**Mike Buzzacott†*◊
Non-Executive Director
Audit Committee Chair**

**Board Appointment** – May 2009

**Skills and Experience**
Mike has extensive experience of working in Asian and European markets, and of dealing with acquisitions, mergers and divestments. He is a Chartered Certified Accountant.

**Career**
Mike spent 34 years with BP, holding a number of international roles including Finance and Control Director Asia Pacific, Chief Financial Officer BP Nutrition and Group Vice President Petrochemicals. He is a former Non-Executive Director and Audit Committee Chairman at Scapa Plc, Rexam Plc and Croda Chemicals Plc. He was also Chairman of Biofuels Plc and adviser to the Ineos Group.

**Lysanne Gray†*◊
Non-Executive Director**

**Board Appointment** – April 2016

**Skills and Experience**
Lysanne has significant experience of risk management, audit, business operations, acquisitions and disposals, and corporate governance, gained within the food sector. She is a Chartered Accountant.

**Career**
Lysanne is Financial Controller at Unilever plc and Unilever NV. Prior to this she was Chief Auditor, working closely with Unilever's Audit Committee, and before that Chief Financial Officer of Unilever's global food service business. She has also held a number of other senior operational and financial positions within Unilever.

† Member of Nomination Committee
* Member of Remuneration Committee
◊ Member of Audit Committee

**Nigel Turner†*◊**
**Senior Non-Executive Director**
**Remuneration Committee Chair**

**Board Appointment** – January 2008

**Skills and Experience**
Nigel has substantial experience of international business and corporate finance.

**Career**
Nigel was Chairman of Numis Securities Ltd and Deputy Chairman of Numis Corporation plc from December 2005 to November 2007. Prior to this he was Vice Chairman of ABN AMRO's Wholesale and Investment Bank, having joined in 2000 from Lazard, where he was a Partner for 15 years and sat on its Supervisory Board. Nigel is a Non-Executive Director of Croda International plc.

**Professor Duncan Maskell†*◊**
**Non-Executive Director**

**Board Appointment** – April 2014

**Skills and Experience**
Duncan has co-founded several biotech companies and has extensive experience of commercialising science and innovation. He is also an experienced scientific adviser to companies, using his broad perspective on life sciences.

**Career**
Duncan is Senior Pro-Vice Chancellor ('PVC') of the University of Cambridge, where he and the four other PVCs are responsible for the University's strategy and policy development. He was previously Head of the School of the Biological Sciences at the University, where he led research on infectious diseases of livestock and people.

**Lykele van der Broek†*◊**
**Non-Executive Director**

**Board Appointment** – July 2014

**Skills and Experience**
Lykele has vast experience of growing companies and working in agricultural businesses throughout the world, including in emerging markets.

**Career**
Lykele retired as a Member of the Board of Management of Bayer CropScience, a division of Bayer AG, in 2014, being responsible for the commercialisation of innovative agricultural products and services globally. Prior to this, he held senior international roles including the Head of Bayer CropScience's BioScience division and President of the Bayer HealthCare Animal Health division.

**Dan Hartley**
**Group General Counsel and Company Secretary**

**Appointment** – June 2014

**Skills and Experience**
Dan has significant experience in multi-jurisdictional patent litigation, mergers and acquisitions, patent licensing and managing product life cycles in complex areas. He holds degrees in science and law.

**Career**
Dan joined Genus from Shire plc, where he was Senior Vice President and International Counsel. Dan joined Shire in 2002, after a number of years in private practice, and worked in increasingly senior and global roles in the UK and the US.

# Genus Executive Leadership Team ('GELT')

## GELT's Responsibilities

GELT shapes our Company vision, demonstrates the values at the heart of our business, and leads our strategic planning and delivery. Our vision and values are fully embedded in the business, giving the entire Genus team a clear and compelling culture, purpose and direction.

GELT also ensures organisational alignment, engagement and efficient execution throughout the Group. This involves crucial commercial, scientific, operational and people decisions. Equally important is GELT's stewardship of Genus's reputation, ethical working and compliance.

To achieve its objectives, GELT focuses on the following areas:

- **corporate strategy** – implementing the strategy approved by the Board to achieve sustained growth, and developing Genus as a science and intellectual property-based company;
- **performance management** – driving operational results and delivery of corporate goals; ensuring core processes are reliable and efficient; regularly reviewing R&D plans; managing risk, including risk mitigation; and managing the Genus balanced scorecard, including customer equity metrics;
- **people** – developing high-performing teams by rigorous selection, development and setting stretching goals, together with managing succession and nurturing talent to bring through the next generation of leaders; and
- **resources management** – judiciously investing in the business for both organic and inorganic growth, including capital expenditure and human resources.

GELT's members are set out on this page. The executives form a high-functioning, high-performing team, combining professional expertise with commercial acumen to deliver the shared strategy for the Group.

**Karim Bitar**
**Chief Executive**

**Stephen Wilson**
**Group Finance Director**

**Saskia Korink Romani**
**Chief Operating Officer, Genus ABS**

**Skills and Experience**
Saskia has worked in Europe, Brazil and the US bringing extensive commercial and management experience gained from roles in sectors ranging from agriculture to consumer goods. She has highly developed strategic and business development skills, speaks several languages and holds an MBA from Columbia Business School.

**Career**
Saskia joined Genus in 2013 and became Chief Operating Officer of Genus ABS the following year. Prior to Genus, she spent ten years with Cargill Inc, becoming its first female business unit manager and rising to be Vice President of Marketing for its animal nutrition business. Before joining Cargill, she spent seven years with Boston Consulting Group. In July 2016, she became Chief Operating Officer of Genus ABS Dairy.

**Jerry Thompson**
**Chief Operating Officer, Genus Asia**

**Skills and Experience**
Jerry is a natural entrepreneur and has brought his deep industry knowledge, commercial skills and international experience to develop the business in countries as diverse as the UK, Russia and China. He has helped the Company establish and grow its business in new markets, particularly those in Central and Eastern Europe and Asia.

**Career**
Jerry has worked for PIC and subsequently Genus for more than 20 years. He joined as a graduate in the UK, subsequently working in both Siberia and Romania before taking on leadership of PIC in Central and Eastern Europe. In the following years, he led PIC Europe before becoming Regional Director for PIC and ABS in Russia & Asia Pacific and subsequently Chief Operating Officer for Genus Asia. In July 2016, he became Chief Operating Officer for Genus ABS Beef.

**Dan Hartley**
**Group General Counsel and Company Secretary**

**See pages 46 and 47 for Karim's, Stephen's and Dan's biographies.**

**Dr Bill Christianson**
**Chief Operating Officer, Genus PIC**

**Skills and Experience**
Bill has spent his whole career at the intersection of agriculture and biotechnology. As a result, he brings a unique blend of deep industry knowledge and extensive commercial and global experience to Genus. He holds doctorates (DVM and PhD) in Veterinary Medicine from the University of Minnesota.

**Career**
Bill has worked for the business since 1993, when he joined as Manager of Veterinary R&D, based in the US. He subsequently worked in a range of operational roles spanning Europe, South America and the US, before being appointed as General Manager of PIC North America in 2007. He led the combined ABS and PIC business across the Americas from 2010, before becoming Chief Operating Officer of Genus PIC in 2012.

**Dr Jonathan Lightner**
**Chief Scientific Officer and Head of Genus R&D**

**Skills and Experience**
Jonathan is a world-renowned quantitative molecular geneticist with expertise spanning inter-related fields such as molecular biology, analytical chemistry and 'omic' technologies. He also has extensive regulatory and commercial experience. He holds a Masters in Systems Engineering from Iowa State, an MBA from the University of Iowa and a Doctorate in Plant Physiology from the Institute of Biological Chemistry at Washington State University.

**Career**
Jonathan joined Genus in 2013 from Pioneer Hi-Bred International Inc, a DuPont business, where he led a global team focused on genetic solutions to enhance agricultural productivity. His other leadership roles with DuPont Pioneer included Senior Research Director for Trait Characterization within Hi-Bred International. Jonathan's previous experience included three years with Exelixis as Director of Biochemical Genomics.

**Catherine Glickman**
**Group HR Director**

**Skills and Experience**
Catherine brings more than 30 years of HR experience within multinational organisations, with particular emphasis on shaping and embedding approaches to talent management, succession planning, leadership development, employee relations and reward. She has also held positions on numerous Board Committees and acted as a pension trustee.

**Career**
Catherine joined Genus in 2012 after 20 years with Tesco, the international retailer, concluding with three years as Group HR Director. Prior to that, she had held HR roles supporting Tesco's international roll-out and a period of major expansion in the UK. Before Tesco, she worked in HR for retailers Somerfield plc and Boots plc. She is a Non-Executive Director of Marston's PLC.

# Corporate Governance Statement

## Leadership

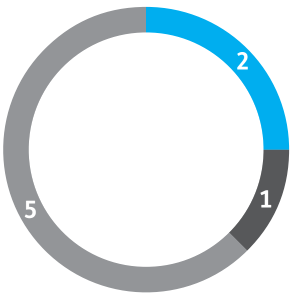
### The Board's Role
The Board, under the Chairman's leadership, is responsible for ensuring Genus's long-term success. It approves our strategy and corporate goals and monitors our performance against them. It determines that we have the necessary resources, systems and controls to achieve our objectives, and it sets the culture and standards of behaviour we want to see throughout Genus.

The Board is also responsible for other critical decisions, including approving the corporate budget and ensuring we have the right funding, approving material contracts, approving material acquisitions and investments, and reporting to shareholders.

This Corporate Governance Statement explains how we structure the Board and its Committees, how the Board oversees the Group and its main activities during the financial year.

### Board Composition
The Board comprises six independent Non-Executive Directors ('NEDs'), including the Chairman, and two Executive Directors – the Chief Executive and the Group Finance Director. This gives us a large majority of independent Directors on the Board.

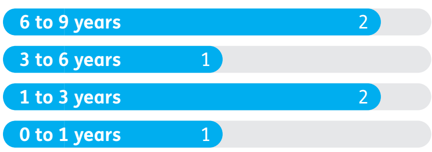
### An Independent Board



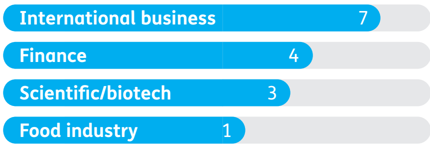

Executive Directors
Independent Non-Executive Chairman
Independent Non-Executive Directors

The two charts that follow show the length of time our NEDs have served on the Board, and the number of Board members with experience of particular relevance to Genus.

### Non-Executive Tenure on the Board




### A Broad Base of Relevant Experience




The Board has a good mix of well-established and newer NEDs. In recent years, we have broadened the range of skills and experience on the Board through Non-Executive appointments, giving us an appropriate blend of different areas of expertise, long-standing knowledge of the Group and its markets, and fresh perspectives. This helps to ensure the Board provides even-handed oversight, works in a constructive and focused manner and has the capabilities to manage the challenges of a complex and evolving global business environment.

Almost all our Directors have held leadership positions in international companies, with several having run businesses overseas. Half our Directors, including the Chairman of the Audit Committee, have significant financial experience, while several have strong backgrounds in scientific research or in leading science-based businesses.

As Genus grows, the Board must evolve to keep pace. We consider diversity in its broadest sense when recruiting, while ensuring the Board has the skills it needs. During the year we recruited our first female NED, Lysanne Gray, who brings a wide range of relevant experience to the Board, including knowledge of the food industry. More information about our approach to Board composition and recruitment can be found in the Nomination Committee report on pages 57 to 58.

The Board believes that all of the NEDs are independent in character and judgement, and that there are no relationships or circumstances that are likely to affect (or could appear to affect) their judgement. Following the performance evaluation described on page 54, the Board also confirms that all the Directors continue to be effective and to demonstrate commitment to their roles.

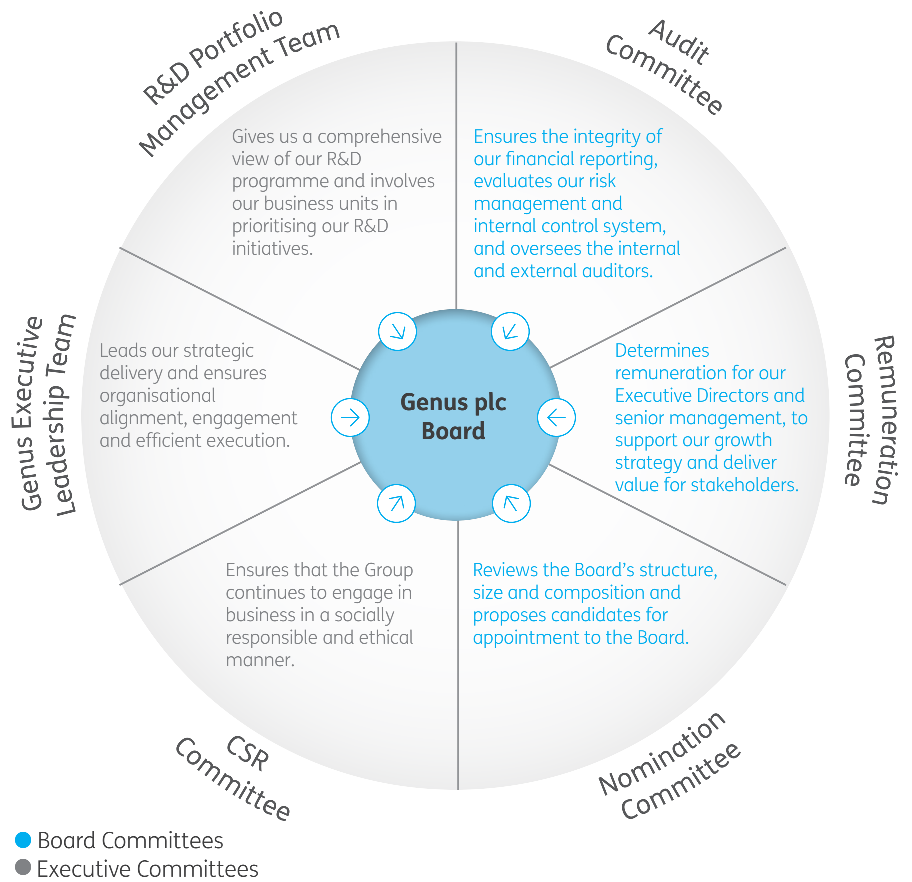
As required by the UK Corporate Governance Code, all the Directors will offer themselves for election at the next AGM, with the exception of Mike Buzzacott who is retiring. Details can be found in the Notice of AGM at the end of this report. If re-elected to the Board at the AGM, Nigel Turner will reach the ninth anniversary of his original appointment as a NED in January 2017. Following review, the Board is satisfied that Nigel remains independent and that he has no connection with the Company's operational activities.

### Board Roles and Responsibilities
To ensure we have clear responsibilities at the top of the Company, the Board has set out well-defined roles for the Chairman and Chief Executive. These, along with the responsibilities of our other Directors, are summarised in the table below.

| Title | Individual(s) | Responsibilities |
|---|---|---|
| Chairman | Bob Lawson | As Chairman, Bob's primary responsibility is to lead the Board and ensure it operates effectively. He achieves this in part through promoting an open culture, which gives people the courage to challenge the status quo, and holding meetings with the Non-Executive Directors without the Executives present. Bob is also responsible for the Board's communications with shareholders. |
| Chief Executive | Karim Bitar | Karim is responsible for devising and implementing the Company's strategy and managing the Company's day-to-day operations. He is accountable to the Board for the Company's development, in line with its strategy, and taking into account the risks, objectives and policies set out by the Board and its Committees. |
| Group Finance Director | Stephen Wilson | Stephen is responsible for supporting the Chief Executive in devising and implementing the strategy, and managing the Group's financial and operational performance. |
| Senior Independent Non-Executive Director | Nigel Turner | Nigel provides a sounding board for the Chairman and is an alternative line of communication between the Chairman and other Directors. He leads meetings of the Non-Executive Directors, without the Chairman present, to appraise the Chairman's performance and consults with shareholders in the absence of the Chairman and Chief Executive. |
| Non-Executive Directors | Mike Buzzacott, Lysanne Gray, Duncan Maskell, Lykele van der Broek | The NEDs constructively challenge and assist with the development of the strategy, within the risk and control framework set by the Board. |

## Board and Committee Structure

The diagram below shows the Board and the Committees that report to it.




## Board Committees

The table below shows Board Committee membership:

| Director | Committee | | |
|---|---|---|---|
| | Audit | Nomination | Remuneration |
| Bob Lawson | – | C | M |
| Karim Bitar | – | M | – |
| Nigel Turner | M | M | C |
| Mike Buzzacott | C | M | M |
| Lysanne Gray | M | M | M |
| Duncan Maskell | M | M | M |
| Lykele van der Broek | M | M | M |

**M** = Committee member **C** = Committee chairman

The Committee Chairmen are responsible for overseeing the Committee's activities, within the terms of reference, and for the Committees' leadership and effective operation. More information about the roles and work of the Board Committees can be found in their statements on pages 57 to 85, and in their terms of reference on our website at www.genusplc.com.

## Executive Committees

The Board delegates operating decisions to the Chief Executive, Group Finance Director and other members of the Genus Executive Leadership Team ('GELT'). GELT's responsibilities and membership are set out on pages 48 and 49.

The CSR Committee defines our Group-wide CSR strategy, reviews our policies and practices, monitors external developments, and advises GELT and the Board about CSR matters. It recommends annual goals and initiatives, and identifies the key performance indicators for monitoring and reporting our performance. More information about our CSR activities can be found in the Strategic Report, on pages 42 to 43, and at www.genusplc.com.

The R&D Portfolio Management Team ('R&D PMT') meets twice a year. It provides a forum for prioritising our R&D programmes, monitoring their progress and assessing the quality of our R&D infrastructure, personnel and pipeline. The R&D PMT's meetings during the year were held in Chicago and Basingstoke.

The R&D PMT's principal responsibilities are to periodically:

- review and prioritise the Company's investment in research, development and technology;
- assess the quality and competitiveness of the Company's R&D pipeline, including considering its risk profile;
- oversee and encourage the ideation management process; and
- approve patent and other IP strategies for new technologies, based on business and technical opportunities.

### R&D PMT Special Focus Areas in 2016

In addition to the standing agenda items, in 2016 the R&D PMT reviewed two strategic proposals. These were:

- a comprehensive review of gene editing technology and IP, resulting in our collaboration with Caribou Biosciences; and
- an organisational capability building plan, to support Genus's advancing pipeline of gene editing traits, which was used when forming the FY17 budget.

# Corporate Governance Statement continued

## Leadership continued

### The Board's Main Activities in 2016

**Matters Considered at All Board Meetings**
- Update on strategic and business developments from CEO
- Update on financial performance of businesses and forecasts from Group FD
- Update on Corporate Governance and Legal issues from Group GC and CoSec, and external advisers

**Leadership and Effectiveness**
- Appointment of Lysanne Gray as a NED and induction process:
  - Interviews with senior management
  - Visited the US and customers (see page 53) to better understand the business operations and environment

**Business Development and Strategy**
- Held strategic meeting with GELT (see below)
- Reviewed and approved business development opportunities, such as:
  - Exclusive global licence with University of Missouri to develop and commercialise gene edited pigs resistant to PRRSv
  - Updated on IVB integration
  - New porcine royalty customers signed in China
  - New bull stud completion with Chitale JV in India
  - GSS development progress and US litigation proceedings (see note 7)
  - Exclusive licence of Caribou Biosciences' leading CRISPR-Cas9 gene editing technology platform
  - Acquisition of St Jocobs
  - Exclusive global licence of IP relating to BRD from Wisconsin State University
- Updated on numerous business development opportunities including summaries of due diligence reviews
- Received updates on competitor landscape

**Research and Development**
- Received regular updates on R&D pipeline developments, new initiatives and potential collaborations
- Attended a dedicated Board science education presentation
- Received updates from Directors attending the R&D PMT
- Updated on the recruitment of key R&D personnel

**Company Performance**
- Received updates on the operational performance of the business and market conditions for each division
- Received updates on plans to address profitability in ABS
- Monitored the Group's performance against its goals

### Attendance at Board and Committee Meetings

The table below shows how many Board and Committee meetings each Director attended during the year.

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Non-Executive Chairman** | | | | |
| Bob Lawson | 10 (10) | 5* | 6 (6) | 4 (4) |
| **Executive Directors** | | | | |
| Karim Bitar | 10 (10) | 5* | 6* | 4 (4) |
| Stephen Wilson | 10 (10) | 5* | 6* | 4* |
| **Non-Executive Directors** | | | | |
| Nigel Turner | 10 (10) | 5 (5) | 6 (6) | 4 (4) |
| Mike Buzzacott** | 9 (10) | 5 (5) | 6 (6) | 4 (4) |
| Lysanne Gray Δ (appointed 1 April 2016) | 2 (3) | 1 (1) | 2 (3) | 1 (2) |
| Duncan Maskell | 10 (10) | 5 (5) | 6 (6) | 3 (4) |
| Lykele van der Broek | 10 (10) | 5 (5) | 6 (6) | 4 (4) |

Note: Figures in brackets are the maximum number of Board or Committee meetings the Director could have attended.

* Attendance by invitation.

** Due to illness, Mike Buzzacott was unable to attend the Board meeting in May 2016. Mike was provided with Board materials and submitted feedback via the Chairman prior to the meeting.

Δ Due to prior commitments pre-appointment, Lysanne Gray was unable to attend all meetings following her appointment. However, Lysanne was provided with all Board and Committee materials and submitted feedback via each respective Chairman prior to the meetings.

### Board Strategy Review

One of the Board's key responsibilities is to approve the Company's strategy and monitor its performance against strategy. To understand how well our strategy is working and to ensure it remains appropriate, the Board holds an annual strategy review each January. Relevant members of GELT present to the Board on their business unit or function.

**Employees**
- Received updates on the global all-staff survey results and follow-up actions
- Received updates on key personnel appointments, assignments and developments across the Group

**Shareholders**
- Updated on meetings with shareholders, potential investors and analysts
- Received a briefing ahead of the AGM
- Approved 10% increase in the dividend payment

**Finance**
- Approved the annual and interim results and dividends
- Approved the FY17 budget
- Received tax and treasury updates
- Received pension updates
- Approved the facility renewal

**Executive/GELT Updates**
- Received monthly financial and operational performance updates
- Received regular presentations from each business unit

**Health and Safety**
- Reviewed and monitored the Group's health and safety performance (monthly written updates and quarterly review)

**Risk Management**
- Monitored the Group risk register
- Received monthly updates on GSS litigation (see note 7)
- Updated on whistleblowing hotline reports and investigations

At this year's review, the Board was taken through:
- A review of global industry trends and challenges.
- An update on each business unit's and R&D's strategic goals and ways to accelerate the time required to reach such goals.
- An update on strategic initiatives and their anticipated financial impact over the next five years.
- An overview of the likely transformation steps for the business in line with the strategic goals.
- A review of projects designed to share the value of our differentiated products with our customers.

### Board Visit to the US

We want to ensure that the Board has first-hand experience of key areas of our business and markets, so we include an annual site visit in the Board calendar.

In May 2016, the Board spent a week visiting our operations and facilities in the US. This included meeting the senior management of ABS, PIC and R&D business units and key members of their North American teams, and receiving business update presentations. The Board also received presentations from leading industry experts and key customers.

Board visits are designed to enhance the Board's understanding of our North American business, its operations on the ground, the markets and the needs of our key customers. The Board met with some of the largest customers in the US, providing insight into customer perspectives of Genus and the drivers of their purchasing decisions. The visit was also motivating for our local management teams, enabling them to engage with the Board at a local level.

## Effectiveness

### Board Induction and Training

A good induction is a key part of ensuring new Board members can fully contribute, so we get the most benefit from their experience. Our induction programme has three main elements:

- helping our Board members to conduct themselves effectively, through a course run by Spencer Stuart, one of the world's leading global executive search and leadership consulting firms;
- ensuring our Directors understand the legal and regulatory aspects of being a Board member; and
- an introduction to our business, through site visits and meetings with our management teams.

**Induction for Lysanne Gray**

Following Lysanne Gray's appointment on 1 April 2016, she underwent a comprehensive induction. This included:

- A visit to our US businesses in May 2016, as part of the May Board meeting. This covered a tour of our facilities in DeForest and Dekorra; a series of presentations from our ABS and PIC business teams, led by their Chief Operating Officers; presentations on our approach to R&D and a tour of our facilities; and visits to a number of PIC and ABS customers.
- Ad hoc updates on the latest developments in corporate governance, provided by internal and external presenters.
- Meetings with Executive Directors and the Company Secretary and senior managers.
- A meeting with the auditor Deloitte LLP.

### Board Evaluation

We assess the Board's effectiveness over a three-year cycle, using a mixture of internal and external evaluations.

**Year 1**
External Board effectiveness review produces an action plan for areas of focus

↓

**Year 2**
Follow-up questionnaire by same external evaluation consultant, to monitor progress with the focus areas

↓

**Year 3**
Internal questionnaires and interviews with the Chairman

This was the first year in our three-year cycle and we therefore had a formal, rigorous and independent external review. This evaluation was facilitated by Dr Tracy Long of Boardroom Review, who has no other connection with the Group.

The Chairman agreed the scope of the review, which included individual interviews with each of the Board members and observation at the February 2016 Board and Committee meetings. Boardroom Review generated a written report on areas for improvement for the Board which was followed up with a presentation to the Board at the May Board meeting and then separate discussion of the principal outcomes of the Board review.

**The Evaluation's Conclusions**

During the review, the Board demonstrated particular strengths in the following areas:

- Board culture, with an appropriate balance of challenge and support, and style of chairmanship;
- strategic alignment and knowledge of the competitive landscape;
- financial reporting and the oversight of risk management from the Audit Committee;
- approach to remuneration and alignment with shareholders' interests; and
- effective forward agenda planning, prioritisation of issues and quality of information.

In addition, it was noted that the skills and composition of the Board was adding value to the business and that it has a healthy blend of NED perspectives and experience, drawn from relevant executive and portfolio careers, a mix of longer serving and newer Directors, and a size which enables all the NEDs to contribute.

**Areas of Focus for 2017**

The evaluation identified areas for the Board to consider during the next year, including continuing focus on:

- strategy, including competitor landscape and shareholder expectations;
- development of the risk agenda, in line with the Company's strategic objectives; and
- succession planning, including diversity and the mix of skills on the Board, to identify any current and future skills gaps.

**Progress Against 2016 Areas of Focus**

Last year's internal Board effectiveness review identified a number of areas for the Board to focus on during 2016. The table below shows our progress against these objectives.

| Focus area | Progress |
|---|---|
| Continued oversight of competitor activity. | Competitors' ongoing activities are monitored through our business development team and the Board is updated at each Board meeting of material activities in the sector. Deep dives in the competitor activities are scheduled bi-annually. |
| Further training in corporate governance. | In addition to corporate governance updates provided by our auditor and Company Secretary, new corporate counsel was invited to brief the Board on recent legislation changes during the year. |
| Further exposure to the science that underpins our R&D programmes. | A dedicated Board science education session, presented by the Chief Scientific Officer, was held in December 2015, along with the periodic R&D updates provided to the Board. |
| Further focus on succession planning and gender diversity. | A formalised succession planning process, as part of Nomination Committee meetings, has been introduced to ensure that the Company is better prepared for Board succession. |

## Accountability

### Risk Management and Internal Control

The Board is responsible for our risk management system and for reviewing our controls and risk mitigations.

The risk management system is designed to identify, evaluate and prioritise the risks and uncertainties we face, and applies to the Board, the Audit Committee, GELT, our businesses and our divisional business reviews. The Board sets the Group's risk appetite, which defines the types and levels of risks that the Board is prepared to seek and accept as the Company executes its strategy. The Board then monitors our risk exposure against the risk appetite for our principal risks and ensures appropriate executive ownership for all risks. This ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. Our principal risks and our mitigations for them are summarised on pages 18 and 19.

The Board performed its annual risk review in May 2016. This review involved a review of its risk appetite and a fresh assessment of the types and levels of risk facing Genus as it executes its strategy. This top-down assessment was designed to identify and evaluate any new or emerging risks and identify whether the risk register covered all relevant risks. To further assist its understanding of risk, the Board continued its programme of visits to our local operations and received regular political, economic and industry risk updates from the relevant business groups. The Board also sought regular updates on a number of specific risks during the year, including the Group's work on its:

- emerging market strategy, in particular, progress in China;
- the GSS project, particularly in light of the litigation the Group initiated, as detailed in note 7;
- the in-licensing of IP rights, particularly those relating to gene editing assets; and
- acquisition and integration of companies.

### Internal Control

The Board, with the help of the Audit Committee, has reviewed the effectiveness of our internal control system, as well as our financial, operational and compliance controls and our risk management.

The review considered our internal control self-assessment process, designed to assess compliance with our minimum control standards, the independent internal audit programme and the reports management prepared when the Board approved the interim and final results and financial statements. It also assessed:

- whether we had identified, evaluated, managed and controlled significant risks; and
- whether any significant weaknesses had arisen, and if so, whether we had addressed them.

The assessment also took into account any risk or control issues we identified through our divisional business reviews, Board and GELT meetings, and insurers' reviews.

We have an internal control continuous improvement work programme and routinely identify opportunities to strengthen our control environment and improve our risk management capabilities. However, the Board has not identified or been told of any material weaknesses in our internal controls.

### Risk Management Framework

The roles and responsibilities within our risk management framework are set out below:

**The Board**

- Has overall responsibility for the Group's risk management and internal control systems.
- Approves our strategic objectives.
- Monitors the nature and extent of risk exposure against risk appetite, for our principal risks.
- Provides direction on the importance of risk management and risk management culture.

**GELT**

- Identifies, addresses and mitigates risks Group-wide.
- Monitors our risk management process and internal controls.

**Audit Committee**

- Supports the Board in monitoring risk exposure against risk appetite.
- Reviews the effectiveness of our risk management and internal control system.

**Risk Management and Internal Audit Function**

- Oversees the risk management process and provides guidance on risk management.
- Maintains the risk schedule created in consultation with senior management.
- Engages with senior management, to review risks and their mitigation.

### Our Internal Control System

The key elements of our internal control systems are set out below. An internal control system cannot completely eliminate the risks we face or ensure we do not have a material misstatement or loss.

**Management Structure**

The Board sets formal authorisation levels and other controls that allow it to delegate authority to run our businesses to the Chief Executive, GELT and their management teams. Our management supplements these controls by setting the operating standards that each subsidiary needs for its business and location.

GELT regularly reviews our performance against strategy, budget and a defined set of operational key performance indicators. The Chief Executive, Group Finance Director, Group General Counsel and Company Secretary and the Group Financial Controller also hold monthly reviews with each business unit.

**Quality and Integrity of Our People**

We strive to operate with high integrity in everything we do. Our control environment depends on high-quality people who maintain our ethical standards. We ensure our people's ability and integrity through our recruitment standards, training and consistent performance management. The Board approves appointments to our most senior management positions.

**Information and Financial Reporting Systems**

We create detailed operational budgets for the year ahead, along with five-year strategic plans, which the Board reviews and approves. We then monitor our performance throughout the year, so we can address any issues. The information we consider includes our monthly financial results, key performance indicators and variances, updated full-year forecasts and key business risks.

The main internal control and risk management processes relating to our preparation of consolidated accounts are our Group-wide accounting policies and procedures, segregation of duties, system access controls, a robust consolidation and reporting system, various levels of management review and centrally defined process control points and reconciliation processes.

**Investment Appraisal**

We control our capital expenditure through our budget process and by having clear authorisation levels, above which our businesses must submit detailed written proposals to the Board for approval.

We carry out due diligence for business acquisitions and material licences, and conduct post-completion reviews of major projects, to ensure we identify areas for improvement and correct any areas of underperformance or overspend.

**Internal Audit**

Our internal audit activities are provided by in-house and external resources, under the leadership of our Head of Risk Management and Internal Audit. During the year, Internal Audit completed a risk-based audit programme agreed by the Audit Committee. The Audit Committee reviews the results of these audits and the subsequent actions we take, which we also communicate to the external auditor.

All business units complete risk and control self-assessments twice a year. Internal Audit, as part of their work programme, perform independent reviews of these assessments to identify any deficiencies in our controls and how we should address them. External audit also provides observation on the control environment as part of their audit work. The results are communicated to senior management and the Audit Committee.

# Corporate Governance Statement continued

## Relations with Shareholders

### Investor Relations Calendar

| Date | Type of communication | Location |
|---|---|---|
| **September 2015** | Preliminary Results Roadshow | London, Edinburgh |
| **October 2015** | Call | Sydney |
| **November 2015** | AGM and Trading Update | Basingstoke, London |
| **February 2016 & March 2016** | Interim Results Roadshow | London, Edinburgh, Los Angeles, Boston |
| **April 2016** | European Roadshow | Copenhagen, Frankfurt, London |
| **June 2016** | Calls | Canada, London, Madison, Paris |

Our Chief Executive and Group Finance Director regularly meet institutional investors, to discuss our strategy and progress, and to understand how investors view our business. The Chairman also attends certain meetings. The majority of these meetings take place after we release our interim and preliminary results.

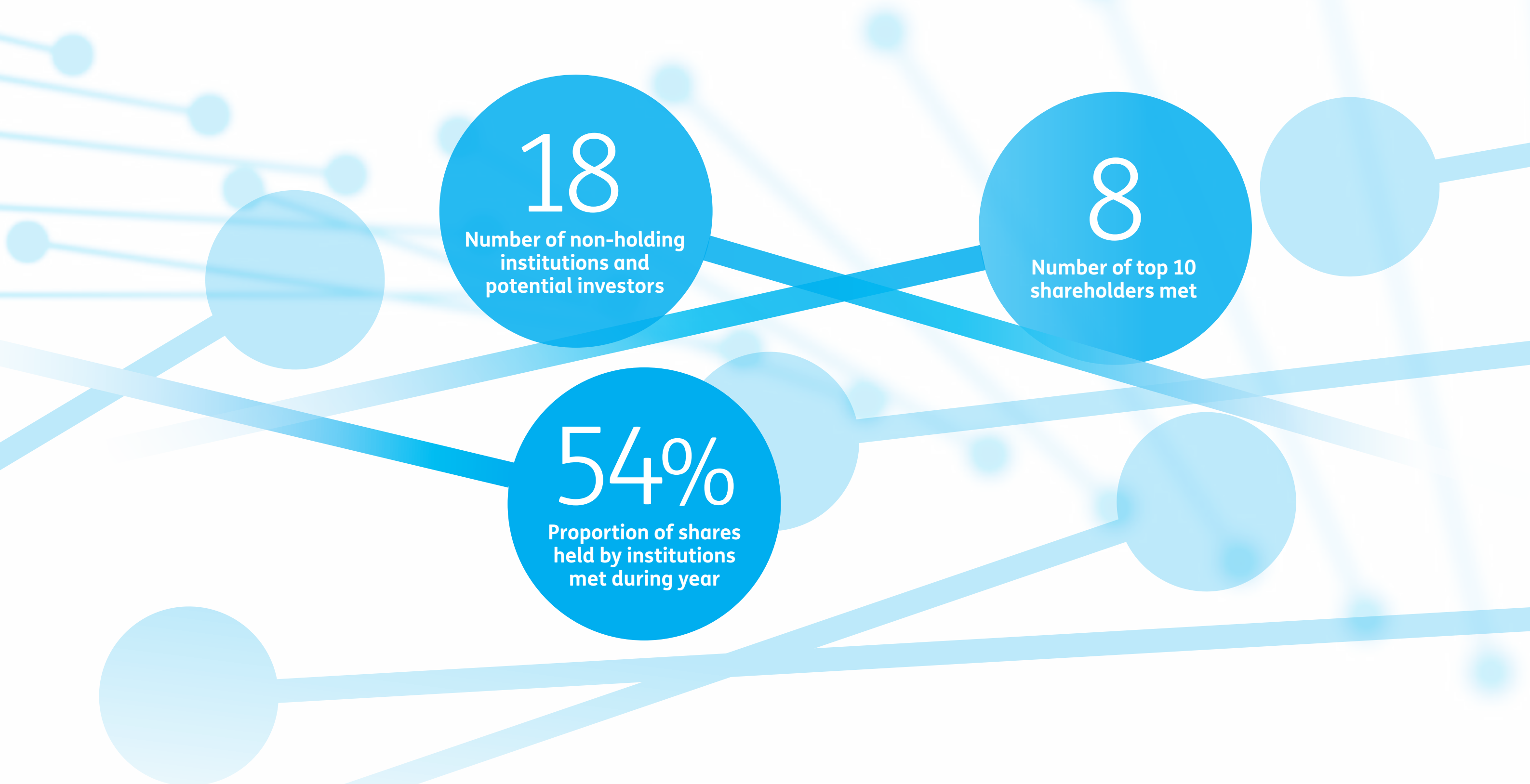
During the year, our investor relations programme included meetings in several global locations as set out in our Investor Relations Calendar. The Board sets time aside during its meetings to discuss feedback from shareholder meetings, including relevant feedback obtained by independent brokers and our advisers. This allows all Directors to understand major shareholders' views.

The AGM also gives the Board an opportunity to communicate with both private and institutional investors, and we welcome their involvement. All our Board members will be available to answer questions at the AGM on 17 November 2016.

**Key Themes Discussed in Shareholder Meetings**

Our meetings with shareholders during the year covered a wide range of topics. The common themes included:

- Genus's operational and financial performance.
- Market conditions, particularly in dairy, and our initiatives to address them.
- Strategic progress across the Group.
- Progress with R&D and our increased spending to accelerate the programme.
- Progress with integrating and building on the IVB acquisition.
- Capturing a share of the value we deliver to customers.
- The opportunity for PRRSv resistant pigs.




Note: Shareholdings as at 30 June 2016.

# Nomination Committee Report

## Forward Focus

"The Committee spent considerable time overseeing the search for an additional NED, which culminated in the appointment of Lysanne Gray."

**Bob Lawson**
Chairman

### Introduction

The Nomination Committee's primary role is to keep the Board's structure, size and composition under review and to manage appointments to the Board. This year, the Committee increased its focus on formalising this review process and succession planning for the Board. This approach is in line with the increased importance being attached to the work of nomination committees more generally, recognising their critical role in ensuring companies have an effective and well-balanced Board.

The Committee also spent considerable time overseeing the search for an additional NED, which culminated in the appointment of Lysanne Gray. Lysanne brings considerable experience of risk management, audit, business operations and the food sector.

In addition, the Committee has progressed its review and analysis of each Board member's skills and experience, to identify any current or future skills gaps that will need to be filled to successfully implement the Group's strategy.

Bob Lawson

7 September 2016

### Committee Composition and Governance

| Chairman | Members |
|---|---|
| Bob Lawson | Nigel Turner<br>Mike Buzzacott<br>Duncan Maskell<br>Lykele van der Broek<br>Lysanne Gray<br>Karim Bitar |

### Focus Areas 2016

- Continued succession planning for the Board and senior management
- Development of a documented skills matrix
- Encourage development of internal high-calibre people to help develop a pipeline of potential Executive Directors

# Nomination Committee Report continued

The Committee has written terms of reference, which set out the authority delegated to it by the Board. These are available from our website: www.genusplc.com. Copies of contracts of service and letters of appointment between the Directors and the Company will be available for inspection at the Registered Office of the Company during normal business hours until the conclusion of the Annual General Meeting on 17 November 2016, and at the place of the Annual General Meeting from at least 15 minutes prior to the Annual General Meeting until its conclusion.

The Committee's biographies, along with information on Genus's other Board members, can be found on pages 46 to 47.

### Committee Roles and Responsibilities

The Committee is responsible for:

- making recommendations to the Board on the structure, size and composition of the Board and its Committees;
- evaluating the balance of skills, experience, independence, knowledge and diversity on the Board;
- succession planning for the Directors and other senior executives;
- identifying suitable candidates to become Directors, based on merit; and
- recommending a candidate for Board approval.

The Committee met three times in the year primarily to discuss the new NED appointment and succession planning.

### The Committee's Main Activities During the Year

**Appointment of Lysanne Gray**

The Chairman leads the process for making appointments to the Board. In appointing a new NED, the Committee sought a candidate who could chair the Audit Committee, following Mike Buzzacott's retirement at the 2016 AGM. The Committee also had a strong desire to increase the Board's diversity. With this in mind, the Committee looked for candidates with the following attributes:

- Functional experience
  - a serving or recently retired chief financial officer or senior divisional finance executive; and
  - experience of UK plc accounting.
- Career experience
  - global experience, preferably in an adjacent sector; and
  - literate in IT systems for an expanding global business.
- Personal characteristics
  - high integrity and honesty;
  - able to add value on ethics, stakeholder management and/or regulatory issues;
  - collegiate in style; and
  - willing to constructively challenge and support.

To reach the widest possible candidate pool, we engaged Egon Zender, an executive search firm, which has also provided the business with occasional executive coaching services, and provided a clear recruitment brief, as well as seeking referrals from the Board. The Chairman identified candidates for interview, who were presented to the Committee and Executive Directors. Following a one-to-one interview process, the Committee received feedback on each candidate. Candidates were assessed consistently throughout the process, against the role specification.

Lysanne Gray was the outstanding candidate and the Committee was pleased to appoint her. The Board considered that Lysanne's great depth of experience in risk management, audit and business operations, together with her exposure to UK corporate governance and experience in the food sector, will bring additional value to the Board as Genus continues to deliver its strategy.

**Succession Planning Process**

During the year, the Committee formalised and committed to the following succession planning process. It has three phases:

- **Assessment.** The Committee reviews the likely tenure of the NEDs, their independence and their skill sets and, in light of the Group's direction, identifies possible skills gaps for future years.
- **Approach.** The Committee encourages the development of high-calibre internal candidates, to create a pipeline of potential Executive Directors, and identifies potential new NEDs who could fill key positions (such as Committee chairs) or positions generated by the Group's strategic direction.
- **Execution.** The Committee holds at least two meetings each year, including one to discuss succession planning, and other meetings as required to discuss appointments or retirements.

### Diversity Policy

Genus recognises and embraces the benefits of Board diversity. A diverse Board has members with different skills, backgrounds, regional and industry experiences, race, gender and other qualities. By bringing these differences to bear in its discussions and decision-making, a diverse Board can help Genus to maintain its competitive advantage. Diversity also links directly to our values, not only by being people focused and responsible, but by encouraging new ideas which deliver for our customers and ultimately drive our results. Our Board diversity policy therefore aims to ensure that we consider diversity in its broadest sense.

Women make up 25% of our senior management and Genus will continue to make all Board appointments based on individual merit.

Bob Lawson

**Bob Lawson**
**Chairman of the Nomination Committee**
7 September 2016

# Audit Committee Report

## Ensuring the Company's Financial Reporting Integrity

"The Committee continued to focus its efforts on risk management, internal control and the Group's financial reporting processes."

**Mike Buzzacott**
Chairman of the Audit Committee

**Dear Shareholder**

The Audit Committee acts on behalf of the Board and shareholders, to ensure the integrity of the Company's financial reporting, evaluate its system of risk management and internal control, and oversee the performance of the internal and external auditors. We design our annual work programme to deliver these commitments.

During the financial year, we focused on risk management, internal control and the Group's financial reporting processes. We have supported the Board in considering its risk appetite and in reviewing the long-term viability statement and supporting analysis. We have carefully considered the critical accounting policies and judgements, the quality of disclosures, compliance with financial reporting standards and reviewed the half-year and Annual Report and Accounts, together with the related external audit reports. We have also reviewed the effectiveness of internal and external audit, discussed the outcomes of these assessments and agreed any actions that were needed. The Committee was satisfied with the performance of the internal audit function and the external auditor during the year.

In April 2016, we welcomed a new member to the Committee with the appointment of Lysanne Gray. When I step down from the Board in November 2016, Lysanne will be appointed Chair of the Audit Committee. I am happy to report that the Committee membership continues to comply with the UK Corporate Governance Code and related guidance, with all members being NEDs, and maintains a sound range of financial, commercial and scientific expertise required to fulfil its role effectively. More details on this, and the appointment and induction process for new members, are in the Corporate Governance Statement of this Annual Report.

7 September 2016

### Committee Composition and Governance

| **Chairman** | **Members** |
|---|---|
| Mike Buzzacott | Nigel Turner<br>Lysanne Gray<br>Duncan Maskell<br>Lykele van der Broek |

### Focus Areas 2016

- Biological assets valuation
- Goodwill and intangible assets
- Pensions

# Audit Committee Report continued

The Committee's members are Non-Executive Directors with a wide range of financial, commercial and scientific research expertise, appropriate for fulfilling the Committee's duties. In FY16, the Committee met the UK Corporate Governance Code's requirement that at least one Committee member should have recent and relevant financial experience, with Mike Buzzacott and Lysanne Gray both having this experience.

The Committee has formal terms of reference, approved by the Board, that comply with the UK Corporate Governance Code. These are available from our website: www.genusplc.com.

Our annual review of these terms took place during the year. The Committee also assessed its own effectiveness, through a structured questionnaire, and concluded that it was effective.

## Committee Role and Responsibilities

The Committee's role and responsibilities include reviewing and monitoring:

- the financial reporting process and any significant financial reporting judgements;
- the integrity of the Group's financial statements and any formal announcements relating to financial performance;
- the Company's reporting to shareholders;
- the effectiveness of the Group's accounting systems and control environment, including risk management and the internal audit function; and
- the effectiveness, independence and objectivity of the Group's external auditor, including any non-audit services it provides to the Group.

The Committee also:

- ensures that the Company maintains suitable confidential arrangements for employees to raise concerns; and
- reviews the Company's systems and controls for preventing bribery.

The Committee reports its findings to the Board, identifying any matters that require action or improvement, and making recommendations about the steps to be taken.

## The Committee's Main Activities During the Year

During the year, the Committee held five meetings and invited the Company's Chairman, Chief Executive, the Group Finance Director, the Group Financial Controller, the Head of Risk Management and Internal Audit, and senior representatives of the external auditor to attend these meetings. The Committee members and I also held separate private sessions during the year with the Head of Risk Management and Internal Audit and the external audit partner. At its five meetings, the Committee focused on:

### Financial Reporting

The main areas of focus and matters where the Committee specifically considered management's judgements are set out below:

| Financial reporting area | Judgement and assumptions considered |
|---|---|
| **Biological assets valuation** | In compliance with IAS 41, Genus records its biological assets at fair value in the Group balance sheet (£354.4m), with the net valuation movement excluding foreign exchange translation shown in the income statement. At each reporting period, the Committee was updated on the methodology and outcomes of the biological assets valuation. Having noted that the methodology was unchanged during the year, the Committee debated and considered management's assumptions and estimates, and discussed and reviewed the external auditor's report on this area. The Committee was satisfied with management's accounting treatment including the income statement increase of £9.4m in the value of porcine and the reduction of £26.5m in the value of bovine biological assets. |
| **Goodwill and intangible assets** | Genus has £86.0m of goodwill and £78.0m of intangible assets on the Group balance sheet. These balances are tested for any indications of impairment by reference to the forecasts for the relevant cash generating units. Within intangible assets, Genus's policy is to capitalise certain development costs and to perform periodic impairment reviews of the carrying amounts. At the balance sheet date, the Group had £17.8m of capitalised development expenses in respect of GSS, as well as £7.7m in associated fixed assets. During the year, the Committee reviewed progress against plans, the costs incurred and the project's timelines to full operation and the outcome of the litigation with ST. The Committee discussed management's reports in detail, including whether any known issues might block the project's completion. The Committee also discussed management's goodwill and intangible asset impairment reviews, the external auditor's work, including its assessment of management's models supporting the estimates and judgements. After due challenge and debate, the Committee was satisfied with management's assumptions and judgements. |
| **Pensions** | The Committee received and reviewed management reports on the treatment of pension costs and also received and considered the external auditor's pensions accounting input. The Committee considered management's recommendations were appropriate, including the treatment of the gain of £43.9m due to the change in pension increases from RPI to CPI and the use of the 2015 valuation schedule of contributions giving rise to the IFRIC 14 additional liability of £14.9m. The Committee continued to review the status of the other parties who are jointly and severally liable for the Milk Pension Fund deficit and concurred with management's assumptions for reporting Genus's share of the fund. |

**Monitoring Business Risks**

The Committee reviewed the Group-wide risk management process designed to identify, evaluate and mitigate risks. In the external auditor's presence, the Committee discussed the risks identified with the Chief Executive and Group Finance Director, along with management's plans to mitigate them. In view of their importance during the year, the Committee ensured that the Board received and discussed detailed input from management on the following key risks and mitigations:

- **GSS:** this is the risk that we are unable to commercialise our GSS technology. The Board continued to receive regular updates throughout the year on go-to-market readiness, as well as the legal proceedings relating to the anti-trust and patent issues connected with this key initiative.
- **Pensions:** the Board was updated on the status of discussions with the Milk Pension Fund in relation to the decision to move benefit indexation to CPI and the progress of the triennial valuation.
- **Health and Safety:** the Board received updates on the controls and mitigation activities in place and/or being implemented to manage this risk, both on Company and third-party premises.

The Committee also commissioned work on IT security and data protection from a new Group CIO and on biosecurity and continuity of supply, both of which will report back in FY17.

**Internal Control System**

Our risk management process and system of internal controls are described in detail on pages 18 and 19. The Committee reviewed a refreshed approach to monitoring the Group's implementation of controls and the results of the key financial controls self-assessment process, which is performed on a six-monthly basis. The Committee further reviewed Internal Audit's findings at each scheduled meeting, and the Group's whistle blowing policy and bribery prevention procedures and conducted its annual review of the effectiveness of the Group's internal controls and disclosures.

The Committee's review of the Group's system of internal control did not identify any material deficiencies. However, Genus routinely identifies and actions control improvement opportunities and the Committee discussed with management various opportunities to further strengthen the Company's system of internal control.

## Oversight of External Audit and Internal Audit

**Internal Audit**

The Committee reviewed and agreed the internal audit function's scope, terms of reference, resources and activities. The Head of Risk Management and Internal Audit provided regular reports to the Committee on the work undertaken and management's responses to proposals made in the internal audit reports issued during the year. The Committee continued to meet the Head of Risk Management and Internal Audit without management being present. The Committee reviewed and was satisfied with the internal audit function's performance.

**External Audit**

The external auditor, Deloitte LLP, was first appointed as the Company's external auditor for the period ended 30 June 2006. In 2015, the Committee oversaw a formal audit retender process for the audit of the financial year ending 30 June 2016. The process concluded with the selection and subsequent reappointment of Deloitte LLP. The new audit partner's first audit period is the financial year ended 30 June 2016.

The Committee reviewed and agreed the external auditor's scope of work and fees, held detailed discussions of the results of its audits and continued to meet the external auditor without management being present. The Committee reviewed the external auditor's objectivity and independence and the Company's policy on engaging the external auditor to supply non-audit services. The Committee received details of the external auditor's non-audit services to the Group, reviewed the nature and monetary levels of these services, which stood at 33% of audit fees, and reviewed compliance with the Company's Non-Audit Services by Auditor Policy. See note 8 for further details. The Committee was satisfied that using Deloitte for such services did not impair its independence as the Group's external auditor.

The Committee assessed the external auditor's performance in conducting the audit for the June 2015 year end, based on questionnaires completed by key finance staff and Committee members. The questionnaires covered the external auditor's fulfilment of the audit plan, the auditor's robustness and perceptiveness in its handling of key accounting and audit judgements, the content of the external auditor's reports, and cost effectiveness. The Committee also considered any regulatory reviews performed on the external auditor. While noting some opportunities for further improvement, the Committee concluded that the external auditor was effective and was satisfied with the plan put forward by the external auditor to respond to the opportunities for improvement identified.

**Mike Buzzacott**
**Chairman of the Audit Committee**
7 September 2016

Directors' Remuneration Report

Section A: Annual Statement

# A Pivotal Year for Genus in Advancing and Delivering Our Strategy

"Our strategy of transforming the business into an agricultural biotechnology pioneer requires important and necessary changes to the structure of reward at a pivotal time for the business."

**Nigel Turner**

Senior Independent Director and Chairman of the Remuneration Committee

**Letter from the Chairman**

**Dear Shareholder**

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2016.

**Accelerating Strategic Progress**

We have seen a year of significant progress for Genus. We have reported a second year of double-digit adjusted profit before tax growth in constant currency coupled with significant advances in delivery of our strategy. You will see examples of this progress throughout the Annual Report, but particular highlights include the successful integration and growth of our IVB business, preparations for the commercial launch of our proprietary sexed semen technology and an industry breakthrough with the generation of the first PRRSv resistant pigs. Our strategy is transforming the business into an agricultural biotechnology pioneer, with a strong pipeline of innovation. Gene editing, in particular, has the potential to be transformative for our business, although the time frame to develop and realise these opportunities is long term.

In light of this strategic progress, during the year the Remuneration Committee (the 'Committee') reviewed the Company's Remuneration Policy to assess whether it supports delivery of the Group's strategy. Maintaining this momentum requires stable leadership and aligning reward to reflect the progress made. We identified specific goals that we wanted to achieve through our approach to remuneration as follows:

- flexibility to recognise very significant biotechnology and strategic Company milestones;
- ability to retain and attract top talent from a global talent pool;
- alignment of the interests of the executive and shareholders.

Having considered the progress made and the strategic direction of Genus together with these goals, our conclusion is that changes to the executive reward structure are required. We believe that these are important and necessary changes at a pivotal time for the business. Having discussed this as a Committee and with a number of our key shareholders, we believe these are important changes for our Remuneration Policy for 2017 and beyond, and will be seeking approval for this at the AGM, one year ahead of the normal cycle.

This remuneration report is therefore split into two sections:

- the proposed new Directors' Remuneration Policy ('Remuneration Policy'); and
- the Annual Report on Remuneration ('Remuneration Report').

**Our Revised Remuneration Policy from 2017**

As we transform Genus, we need the ability to recognise better the key strategic milestones for the Company ('Company

Milestones'), particularly as their benefit may only be reflected some years later in traditional incentive plan measurements. We also need the flexibility to recognise and retain key individuals who exist as part of a global talent pool, now and in the future, so that we optimise the execution of these initiatives to maximise the Company's long-term performance and shareholder value.

Our core bonus opportunity for each Executive Director will remain at 125% of salary. This will continue to be measured using a combination of financial and non-financial metrics, and 25% of the award made under the core bonus element will continue to be made in shares and deferred for three years.

We will introduce a new element to the annual bonus to recognise progress towards and achievement of Company Milestones. Such milestones are significant events in the Company's development. At the start of the year the Committee will determine what needs to be achieved during the year to ultimately achieve the Company Milestone(s). Any awards under this element (up to 75% of salary for the Chief Executive and 50% of salary for the Group Finance Director) will be made fully in shares and deferred for three years. This allows us to recognise industry-changing events for Genus that build future long-term value for shareholders and retain individuals who will continue to make such events happen. We will retrospectively disclose the Company Milestones within our Remuneration Report so shareholders have full visibility of the significance we have placed on particular strategic events.

As a result the total possible opportunity under the annual bonus will increase from 125% of salary to 200% for the Chief Executive and to 175% for the Group Finance Director.

Financial targets will continue to govern at least half of any award under the annual bonus. If awards were made under all elements of the bonus, the total award in shares deferred for three years would increase from 25% of any award to over 50% of the annual award for the Chief Executive. This change is designed to recognise progress, drive alignment with the business and aid retention of executives through increased shareholding.

We believe it is important for our Executive Directors to be fully aligned to Company performance through significant shareholding levels in the business. Alongside the change to annual bonus, we are doubling the Executive Directors' minimum shareholding requirement to 200% of salary (currently 100%).

In order to complement the above policy changes, you will see some amendments to the way we propose to implement the Remuneration Policy for 2017 in relation to the Genus plc 2014 Performance Share Plan ('2014 PSP'). Having reviewed market conditions, changes to our business strategy and the level of awards coming through our existing plans, we will adjust the EPS range for performance such that the annual EPS growth range will be set at a threshold level of 5% for 20% vesting (currently 6%) through to 15% for full vesting (currently 20%). The previous range was set ahead of the decision to accelerate further investment in research and development as part of our strategy, which has potential to create significant value for shareholders. We believe that this amended range continues to reflect stretching performance against our agreed strategy, and that annual 15% EPS growth should warrant full awards under the 2014 PSP. This change will be made for awards granted from 2016.

To support our transformation towards becoming an animal biotechnology business, we also propose that certain costs in connection with the development of gene editing are excluded from the calculation of awards. We want to encourage vigorous pursuit of the opportunities: because expenditure year on year will be variable, we want to ensure that considerations of the remuneration impact do not influence executive decision-making. By excluding gene editing, we drive the behaviours we seek from the executives and encourage management to invest for the long-term interests of shareholders. We will follow this approach in determining the vesting of long-term awards in 2017 and 2018.

### Shareholder Engagement

The Committee consulted major shareholders in July and August 2016 on the proposed changes to the Remuneration Policy. We are grateful to our shareholders for their time and feedback, which was challenging but supportive: they were very understanding of the direction the business is taking and wish to retain, as we do, the current management team to deliver on the potential.

### Outcomes for 2016 Remuneration

In reaching the 2016 outcomes, the Committee has excluded amounts charged to the Profit and Loss account and cash flows which were incurred in relation to our investment in gene editing. This investment opportunity was not foreseen when targets were set. Management reacted quickly to secure this value for shareholders and to build our IP position following the PRRSv resistant pig discovery. We have therefore excluded these costs from the calculation of awards under the annual bonus and performance share plan. The Committee is firmly of the view that this is the right approach and creates an appropriate alignment between underlying performance and reward.

Adjusted profit before tax, after an adjustment of £0.9m of gene editing investment, grew 12% in constant currency. The performance of PIC, and specifically the business in China, resulted in good Group performance overall. The Committee therefore determined that 78.2% of maximum annual bonus should be awarded to the Chief Executive and 78.2% to the Group Finance Director.

Under the long-term incentive, following adjustment for gene editing costs and share-based payments as explained further within this report, the 2013 award partially vested. The three-year EPS growth rate was 25.4% and RPI was 5.7%, resulting in an average annual EPS growth over the period of RPI+6.6%. 34.4% of the award will vest for Chief Executive and 31.4% for Group Finance Director.

### Shareholders' Views

The Committee was delighted that it received 99.55% approval of the Remuneration Report in 2015. We will continue to engage with shareholders, taking into account shareholder views and best practice.

On behalf of the Board, I would like to thank shareholders for their continued support. The Committee hopes that the report is clear and succinct and, as always, would welcome feedback. If you wish to contact me, please email me at remunerationchair@genusplc.com. The Committee looks forward to your support for our Remuneration Report at the 2016 AGM.

**Nigel Turner**
**Senior Independent Director and Chairman of the Remuneration Committee**

# Directors’ Remuneration Report continued

## Section A: Annual Statement continued

This Remuneration Report has been prepared so it complies with the provisions of the Large and Medium-sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013, which set out the disclosures required for Directors’ remuneration as at the reporting date. The report is also in accordance with the requirements of the Financial Conduct Authority’s Listing Rules.

The legislation requires the auditor to report to the Company’s members on the ‘auditable parts’ of the Directors’ Remuneration Report and to state whether, in its opinion, the parts of the report that have been subject to audit have been properly prepared in accordance with the legislation. We have highlighted the parts of this report which have been audited.

# Section B: Directors' Remuneration Policy Report

The revised Remuneration Policy is set out in this section. It is being put to shareholders for approval at the AGM to be held on 17 November 2016. This is one year earlier than originally intended, as a result of the changes the Committee is proposing. The Remuneration Policy is intended to apply, subject to shareholder approval, for three years from the 2016 AGM. Where a material change to this policy is considered, the Company will consult with major shareholders prior to submitting the revised policy to all shareholders for approval.

## Directors' Remuneration Policy Report

The key objectives of the Remuneration Policy are that:

- pay should be competitive, so we can attract and retain the best people;
- fixed pay (base salary, pension and benefits) should take account of appropriate external benchmarks (both in the UK where we are listed and globally) and pay for our other employees;
- short and long-term incentive pay should provide the opportunity to earn upper quartile total remuneration, subject to delivering our above-market long-term growth aspirations;
- we can recognise significant biotechnology and strategic Company Milestones;
- incentive pay should be directly linked to the Group's strategy, with targets relating to our key performance indicators (using non-financial 'input' measures and/or 'output' measures such as earnings per share) and should be stretching, in light of our strategic plan;
- incentive structures should be simple, reward long-term sustained growth and key strategic milestones, rather than volatile performance;
- the policy should be clearly aligned with shareholders' interests, take due account of current best practice and not encourage undue risk taking; and
- policy principles for Executive Directors should apply to the members of the Genus Executive Leadership Team ('GELT'), with appropriate tiering through the wider workforce.

### How we are Evolving Reward to Meet Identified Goals

| Goal | Current Policy | How we are Evolving Our Policy |
|---|---|---|
| Greater flexibility to recognise the long term benefit of achieving key Company Milestones | • Weighted towards short term financial metrics | • Introduction of a new element within the annual bonus to recognise Company Milestones.<br>• Whether this is included within the annual bonus determined annually in advance by the Committee. |
| A strengthening in our ability to retain top talent | • Market competitive base pay<br>• Compulsory holding period for shares released from PSP (awards made since 2014) | • Amended EPS performance range for the 2016 award maintaining stretch.<br>• Increase in maximum possible award under the annual bonus. |
| Greater alignment of the interests of the executive and shareholders | • Compulsory deferral into shares within annual bonus<br>• Long-term incentive plan awarded in shares<br>• Minimum shareholding requirement | • Greater deferral within annual bonus structure, where over half of the award may be deferred for three years.<br>• Increase in minimum shareholding requirements to 200% of salary. |

# Directors' Remuneration Report continued

## Section B: Directors' Remuneration Policy Report continued

### Future Policy Table

#### Base Salary

**To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group.**

**Operation**

Reviewed annually as the norm, with increases from 2017 usually effective from 1 September.

Periodically benchmarked against relevant market comparators, reflecting the size and nature of the role, individual performance and experience, increases awarded to other employees, Group performance and broader economic conditions.

**Maximum**

Annual percentage increases are generally consistent with the range awarded across the Group and in line with the salary awards for the home country that the executive works in.

Percentage increases in salary above this level may be made in certain circumstances, such as a change in responsibility or a significant increase in the role's scale or the Group's size and complexity.

**Performance Conditions**

A broad assessment of individual and Company performance is used as part of the salary review.

The salaries payable to the Executive Directors from 1 July 2016 are disclosed on page 74.

**Changes**

*Any salary award from 2017 onwards will be effective from September rather than July. This aligns pay awards with a review of the full year's performance.*

#### Benefits

**To provide competitive benefits and to attract and retain high-calibre employees.**

**Operation**

Benefits generally include a car allowance and insured benefits (e.g. life assurance and private medical insurance).

Where Executive Directors are recruited from overseas, or required to relocate on an international assignment, benefits more tailored to their geographical location may be provided and may include relocation costs and/or tax equalisation arrangements as necessary.

Where revised benefits are offered in a geographic location or across the Group, Executive Directors are likely to be eligible to receive those benefits on similar terms.

If the Company introduces an all-employee share plan, Executive Directors will be eligible to participate on the same terms as other employees.

**Maximum**

The car allowance value is limited to £20,000 per annum.

The value of insured benefits will vary year on year, based on the cost of providing insured benefits, and is included in the total single figure table on page 76.

**Performance Conditions**

None.

**Changes**

None.

#### Pension

**To provide a competitive Company contribution that enables effective retirement planning.**

**Operation**

Only basic salary is pensionable.

Pension is provided by way of contribution to a personal pension or as a salary supplement in lieu of pension provision.

**Maximum**

Pension contribution or salary supplements in lieu of pension are provided to a maximum of 25% of basic salary.

**Performance Conditions**

None.

**Changes**

None.

## Annual Bonus

**The bonus is split into two parts:**
**A Core Bonus element** incentivises against a combination of financial targets and personal objectives.

**A Company Milestone element** incentivises achievement of significant Company Milestones. This element is included at the discretion of the Committee.

In combination, these elements support achievement of the Group's goals.

### Operation

25% of the payments under the Core Bonus element are made in Company shares deferred for three years subject to continued service. The remaining award is payable in cash.

Payments under the Company Milestone element are made fully in Company shares deferred for three years subject to continued service.

Malus and clawback provisions may apply for a period of three years from the point of award, in the event of a material misstatement of the Group's financial results.

Share awards are made under the Deferred Share Bonus Plan ('DSBP'). Awards (under either the Core Bonus element or Company Milestone element) will vest after three years, subject to continued service.

A dividend equivalent provision operates, enabling dividends to be paid (in cash or shares) on deferred shares that vest.

### Maximum

Core Bonus opportunity: 125% of salary

The Committee has the discretion to award an additional variable award (up to 75% of salary for the Chief Executive, up to 50% of salary for other Executive Directors) to reward achievement of company milestones under the Company Milestone element.

The Committee has the discretion to determine in which year the award is earned, and can choose to recognise achievement in a subsequent year. The maximum award in any year will be up to 75% for the Chief Executive, 50% for other Executive Directors.

Therefore the maximum under the annual bonus is 200% of salary for the Chief Executive, 175% for other Executive Directors.

### Performance Conditions

Core bonus awards are subject to achievement against a sliding scale of challenging financial targets and personal objectives, which the Committee sets each year to reflect the priorities for the year ahead.

The specific performance measures, targets and weightings are set every year to align with the Company's strategy.

Financial targets govern the majority of Core Bonus payments and are typically linked to the Group's key performance indicators (e.g. profit and cash generation), with a minority earned based on performance against personal objectives.

The Company Milestone element may be included by the Committee to incentivise and reward the achievement of pre-determined Company Milestones.

The Committee has the discretion to adjust the bonus outcome in light of overall underlying performance. Any adjustment made will be disclosed within the following Annual Report on Remuneration.

For financial performance targets under the Core Bonus element, bonus is earned on a graduated scale. The level of payment at threshold is set annually but will not exceed 25% of maximum. Maximum awards (100% payable) are for substantial outperformance against targets.

A summary of the performance targets for 2017 is included on page 74.

### Changes

*Additional element of bonus (Company Milestone element) worth a maximum of 75% of salary per annum for significant strategic achievements. Awards from this element in deferred shares further align executives with shareholders and supports a long-term and significant personal shareholding requirement. In years when a Company Milestone element is included, the annual bonus maximum increases from 125% to 200% of salary for the Chief Executive, 175% for other Executive Directors.*

A diagram illustrating the structure of the annual bonus is shown on page 74.

# Directors' Remuneration Report continued

## Section B: Directors' Remuneration Policy Report continued

## Future Policy Table continued

### 2014 PSP

**The 2014 PSP incentivises executives to achieve superior returns to shareholders over a three-year period, to retain key individuals and align their interests with shareholders.**

**Operation**

Eligibility to receive awards is at the Committee's discretion each year.

Awards vest three years from grant, subject to continued employment and satisfaction of challenging three-year performance targets.

For awards granted from 2014, the after-tax number of vested shares must be held for at least a two-year period following vesting.

A dividend equivalent provision enables dividends to be paid (in cash or shares) on shares that vest.

Malus and clawback provisions may apply for a period of three years, in the event of a material misstatement of the Group's financial results.

**Maximum**

Maximum annual award of 200% of salary (300% of salary in exceptional circumstances, such as recruitment).

**Performance Conditions**

Awards vest based on three-year performance against a challenging range of targets, aligned with the delivery of the Company's long-term strategy.

Financial targets (including adjusted EPS growth) will determine the vesting of a majority of awards granted in any year.

Targets are typically structured as a challenging sliding scale, with no more than 20% of the maximum award vesting for achieving the threshold performance level through to full vesting for substantial outperformance of the threshold.

The awards will also be subject to an underpin that enables the Committee to scale back (but not scale up) vesting, if the Group's performance over the period is not considered to reflect the progress made against its strategic business targets.

A summary of the performance targets for 2017 is given on page 80.

The Committee will review performance conditions annually, in terms of the range of EPS targets and the metrics and weightings applied to each element of the PSP. Any revisions to the metrics and/or weightings will only take place if it is necessary because of developments in the Company's strategy and, where these are material, following dialogue with the Company's major shareholders. Should the Committee believe that a major change of the current approach is appropriate (for example, replacing a primary performance metric with an alternative), this would only take place following a revised Directors' Remuneration Policy being tabled to shareholders.

**Changes**

*None.*

### Share Ownership Guidelines

**To align executives and shareholders.**

**Operation**

Executives are expected to achieve a shareholding of 200% of salary, by retaining 50% of the net of tax number of vested shares under the Company's DSBP and PSP.

In addition, the Chief Executive Officer will retain the entire after tax number of Restricted Stock that was granted to him shortly after his appointment.

**Maximum**

Not applicable.

**Performance Conditions**

Not applicable.

**Changes**

*To align the executives with shareholder interests, minimum shareholding doubled from 100% of salary to 200% of salary.*

## NEDs

**To provide compensation that attracts high-calibre individuals and reflects their experience and knowledge.**

**Operation**

The Committee determines the Chairman's fee.

The Board periodically reviews Non-Executive Directors' fees.

No Directors take part in meetings where their own remuneration is discussed.

Fees are based on the time commitments involved in each role and set with reference to the fees paid in other similarly sized UK listed companies.

**Maximum**

Any increase in Non-Executive Director fees may be above the level awarded to other employees, given that they may only be reviewed periodically and may need to reflect any changes to time commitments or responsibilities.

The periodic review may result in an increase beyond the fees currently payable.

Non-Executive Directors also receive reimbursement of reasonable expenses incurred in connection with Company business and may settle any tax incurred in relation to these.

The fees payable for 2017 are stated on page 82.

**Performance Conditions**

None.

**Changes**

*Clarification of approach to expenses and that Genus may settle any tax liability due in relation to reasonable expenses incurred.*

# Directors' Remuneration Report continued

## Section B: Directors' Remuneration Policy Report continued

### Approach to Recruitment Remuneration

| Area | Policy and operation |
|---|---|
| **Overall** | When hiring a new Executive Director or making internal promotions to the Board, the Committee will apply the same policy as for existing Executive Directors, as detailed in the Remuneration Policy. The rationale for the package offered will be explained in the next Annual Report on Remuneration.<br><br>For internal promotions, commitments made prior to appointment will typically be honoured, as the executive transitions to the new remuneration arrangements. Awards made in the transition year would be pro-rated to reflect the remaining period of the vesting period or financial year. Any award will take into consideration awards granted prior to promotion. |
| **Base salary** | Base salary would be set at an appropriate level, to recruit the best candidate based on their skills, experience and current remuneration.<br><br>If the salary is initially set at a discount to those offered in companies of a similar size, geographical reach and complexity, the salary will be increased over a period of time to bring the salary to the desired level, subject to individual performance. |
| **Benefits** | Benefits provisions would be in line with the normal policy. In addition, reimbursement of legal fees in connection with recruitment may be reimbursed.<br><br>Where appropriate, the executive may also receive relocation benefits or other benefits reflecting normal market practice in the territory in which the Executive Director is employed. |
| **Pension** | Pension provision would be in line with normal policy. |
| **Annual bonus** | Incentive awards would be made under the annual bonus, in line with the normal policy. The maximum award under the Policy is 200% of salary.<br><br>Where an individual joins after the start of a scheme year, awards may be pro-rated for the portion of the financial year. |
| **Long-term incentives** | Awards under the Performance Share Plan would be granted in line with the policy outlined for the current Executive Directors.<br><br>In the event of internal promotion, existing awards made under the Plan will continue over their original vesting period and remain subject to their terms at the date of grant. The Committee may choose to make an additional award (on the same basis as other Executive Directors), subject to the overall limit permitted under the Plan in any year.<br><br>Where an individual joins after the start of the incentive grant, an award may be made to bring the executive onto the 'in-flight' cycle, subject to the limits set out in the policy. Awards may be pro-rated for the portion of vesting period served. |
| **Buy-out awards** | In addition to normal incentive awards, buy-out awards may be made to reflect value forfeited through an individual leaving their current employer.<br><br>If required, the Committee would seek to reflect the nature, timing and value of awards forgone in any replacement awards. Awards may be made in cash, shares or any other method as deemed appropriate by the Committee. Where possible, share awards will be replaced with share awards. Where performance conditions apply to the forfeited awards, performance conditions will be applied to the replacement award or the reward size adjusted downwards.<br><br>In establishing the appropriate value of any buy-out, the Committee would also take into account the value of the other elements of the new remuneration package.<br><br>The Committee would aim to minimise the cost to the Company. However, buy-out awards are not subject to a formal maximum. Any awards would be no more valuable than those being replaced. |

### Malus and Clawback

Malus and clawback may operate in respect of the annual bonus and long-term incentives. These provisions enable the Company to reduce the payout and vesting levels or to recover the relevant value from cash bonus payout or vesting of shares. These provisions could take effect in the event of erroneous or misstated financial accounts or other performance indicators within two years of the reporting date.

### Discretions

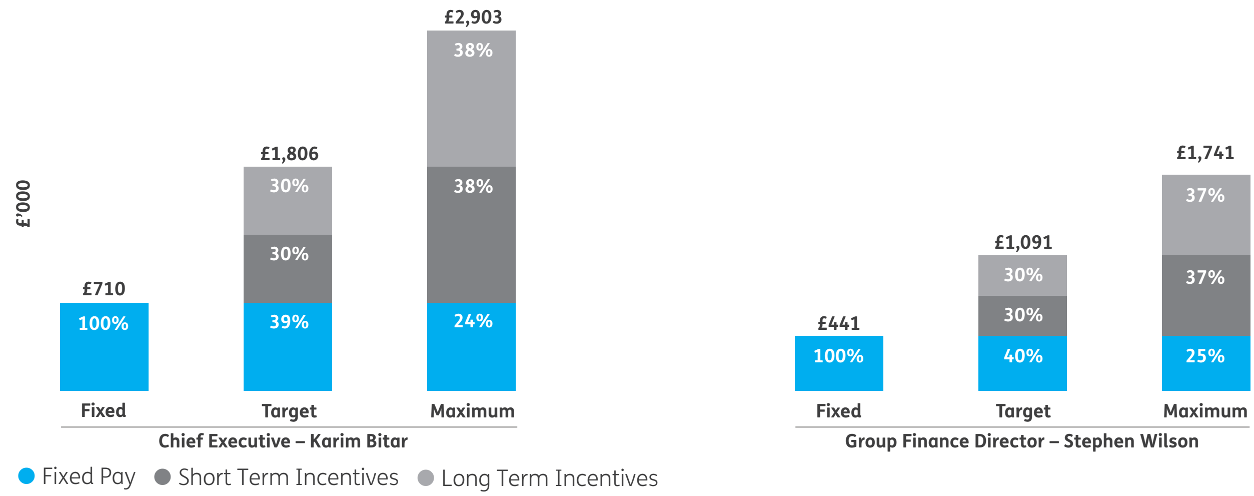
The Committee retains certain discretions, which are set out in full in the plan rules. These include but are not limited to:
- the timing of any bonus payment;
- the impact of a change of control or restructuring; and
- any adjustments required as a result of a corporate event (such as a transaction, corporate restructuring, special dividend or rights issue).

In line with the 2004 and 2014 PSP plan rules, the Committee can amend the performance conditions and/or measures in respect of any award or payment, if one or more event(s) occur which would lead the Committee to consider that it would be appropriate to do so, provided that such an amendment would not be materially less difficult to satisfy than the unaltered performance condition would have been, but for the event in question.

Should the Committee use any of the discretions set out above, they would, where relevant, be disclosed in the next Annual Report on Remuneration. The views of major shareholders would be sought. Discretion in relation to the Company's Share Incentive Plan scheme would be exercised within the parameters of the HMRC approved plan status and the listing rules.

## Remuneration Scenarios for Executive Directors

The charts below show how the Group's Remuneration Policy affects the composition of the Executive Directors' remuneration at different levels of performance, both as a percentage of the total remuneration opportunity and as a total value:




- Fixed Pay – salaries as at 1 July 2016 + benefits (using the value to 30 June 2016 as a proxy) + pension (25% of salary for Chief Executive and 15% of salary for Group Finance Director).
- Below Threshold – fixed pay only.
- Target – annual bonus pays at 50% of the maximum (core bonus and Company Milestone elements), PSP vests at 50% of the maximum award.
- Maximum – annual bonus and PSP pay out in full.
- Share price growth has been ignored.

## Remuneration Policy for Other Employees

The remuneration structure for the Genus Executive Leadership Team ('GELT') follows the same approach as the Executive Directors but with a lower maximum opportunity. Eligibility for the Company Milestone element below the Executive Directors is based on the Chief Executive's recommendations and subject to approval by the Committee. The Committee approves the annual objectives and targets for GELT together with salary awards, bonus targets and out-turns.

For the tier of management below GELT, the remuneration structure consists of base salary, benefits, pension, bonus and long-term share awards. Performance measures are tailored to reflect the position of the individual and the part of the business in which they operate.

Below the leadership group, the structure and amount of remuneration vary by work level. Generally, at less senior levels of the Group, total remuneration is less weighted towards performance-related pay, consisting of base salary, bonus and benefits relevant to the local jurisdiction and market practice. The maximum provision and incentive opportunity available are determined by the seniority and specialism of the role.

The Group HR Director is invited to present to the Committee on the proposals for salary increases for the employee population generally and any other changes to the Remuneration Policy. The Committee approves the share award policy for all employees and the value of awards to all executives and potential new hires.

The Company did not consult with employees when drafting the Directors' Remuneration Report.

## How Shareholders' Views are Taken into Account

We consulted shareholders on the changes we are proposing for the new policy, specifically the short term bonus and EPS range for the long term award. During July and August, we spoke to four of our largest shareholders, sharing the business progress and remuneration proposals. We explained that, when the original policy was approved in 2014, the rate of return was expected to be higher. Investments that we have recently made – PRRSv resistant pigs, CRISPR-Cas9 technology, IVB Brasil – have brought forward costs, which in the short term, will impact EPS growth. We shared that we want to retain the very high calibre management team, and incentivise them to deliver on the opportunities. We are grateful to our shareholders for their time and feedback, which was challenging but supportive: they were very understanding of the direction the business is taking and wish to retain, as we do, the current management team to deliver on the potential.

# Directors' Remuneration Report continued

## Section B: Directors' Remuneration Policy Report continued

The Committee remains committed to ongoing dialogue with the Company's shareholders and will continue to consult with shareholders in the future.

### Service Contracts, Compensation for Loss of Office and External Appointments Policy

**Executive Directors**

Under the Executive Directors' service contracts, the Company is required to give 12 months' notice of termination of employment, while the Executive Directors are required to give six months' notice. If either party serves notice, the executives can continue to receive basic salary, benefits and pension for the duration of their notice period, during which time the Company may require the individual to fulfil their duties or assign a period of garden leave.

Under the Chief Executive's contract, the Company may elect to make a payment in lieu of notice of up to 12 months' base salary and benefits, in the event of it terminating his employment. These payments may be made on a monthly basis, in which case the principles of mitigation apply and he would be obliged to seek alternative employment, with the payments reducing to the extent that he receives alternative income.

Under the Group Finance Director's contract, the Company may elect to make a payment in lieu of notice of up to 12 months' base salary, in the event of it terminating his employment. These payments may be made on a monthly basis, in which case he would be required to take all reasonable steps to find alternative employment. The principles of mitigation may apply, which means the Company may reduce the monthly payments based on his actual earnings during the period for which the monthly payments are made, or the Company's assessment of the earnings that he could have received if he had sought alternative employment.

In certain circumstances, such as gross misconduct, the Company may terminate employment immediately without notice or payment. The Committee may make any statutory entitlements or payments to settle or compromise claims in connection with a termination of any existing or future Executive Director as necessary. The Committee also retains the discretion to meet any outplacement costs, if deemed necessary.

There are no enhanced provisions in the event of a change of control. Executive Directors' service contracts, which include details of remuneration, will be available for inspection at the AGM or at the Company's registered office.

Paying the cash element of annual bonuses is normally contingent on the executive being in employment and not under notice at the payment date, unless the Committee determines otherwise, for example in the event of a good leaver circumstance such as death, retirement, injury or disability, redundancy or employment being transferred outside the Group. The payment of any bonus will be pro-rated for the period of service and subject to the relevant performance conditions being achieved.

The vesting of any deferred share bonus awards is determined by the DSBP rules. In general, awards lapse when employment ceases. However, the deferred share bonus award will vest in certain good leaver circumstances, such as death, retirement, injury or disability, redundancy, employment being transferred outside the Group or any other reason the Committee decides.

The vesting of any awards granted under the 2004 PSP is determined by the plan's rules. In general, awards lapse when employment ceases. However, awards may vest in certain good leaver circumstances, such as death or any other reason the Committee decides. This vesting is based on the extent to which the performance target has been satisfied. The Committee may decide to reduce the award pro rata, reflecting the proportion of the performance period that has elapsed.

The vesting of any awards granted under the 2014 PSP will depend on the business's performance, based on the full performance period, subject to the Committee's final judgement. Awards will be pro-rated based on the time that the individual was employed, although the Committee can decide not to pro-rate an award if it thinks it is inappropriate to do so. Alternatively, the Committee can decide that a good leaver's award will vest when he leaves, subject to the performance conditions measured at that time and the pro-rating described above. This treatment will apply in the case of death.

In the event of a change of control, the treatment detailed above for good leavers under the 2004 PSP and 2014 PSP would apply.

**Non-Executive Directors**

All Non-Executive Directors have specific terms of engagement. Their appointment is for a fixed term of three years and is subject to one month's notice of termination by either the Company or the Non-Executive Director, and to annual re-election at the Company's AGM, in accordance with the UK Corporate Governance Code.

**Outside Appointments**

The Company recognises that Executive Directors may be invited to become Non-Executive Directors of other companies and that this can broaden the Director's skills and experience. When Stephen Wilson was appointed in January 2013, he was permitted to retain his Non-Executive Directorship of Xchanging plc and the associated remuneration. Stephen Wilson retired from this appointment on 5 May 2016.

# Section C: At a Glance

## What Executive Directors Were Paid in 2016

| | Chief Executive | Group Finance Director | Explanation |
|---|---|---|---|
| **Base salary** | £537,367 | £364,140 | These were the salaries set on 1 July 2015. |
| **Benefits** | £23,000 | £14,000 | This comprises a car allowance and insured benefits for both executives and a medical screen. |
| **Pension** | £134,342 | £54,621 | This is a cash allowance (25% of salary for the Chief Executive and 15% for the Group Finance Director) in lieu of participation in a pension plan. |
| **Annual bonus** | £525,545 | £356,129 | For the short-term bonus award, after adjustment for gene editing costs, the Group's financial performance meant that awards for both the Chief Executive and Group Finance Director were 78.2% of maximum. This is made up of:<br>• Adjusted profit before tax growth in constant currency of 12% (excluding gene editing costs) → up to 60% of bonus – 67.9% achieved.<br>• Cash generation of £18.6m (excluding gene editing investment) → up to 15% of bonus – 100% achieved.<br>• Non-financial strategic targets → up to 25% of bonus – The Chief Executive and Group Finance Director both received 90% for this element (22.5%).<br><br>We explain the link between pay and corporate performance on page 75 and provide detailed disclosure of the bonus targets and adjustment for gene editing costs on page 76. |
| **Performance Share Plan** | £385,283 | £208,521 | The adjusted EPS figure was 60.7p. The figure used for determining vesting of PSP awards includes the impact of the cost of share based payments. In addition, the Committee exercised discretion to exclude the impact of gene editing costs incurred, resulting in a revised EPS number of 57.1p.<br><br>This EPS level exceeds the threshold for these awards and therefore the Tier 1 awards granted to the Chief Executive and to the Group Finance Director (on 26 September 2013) partially vest.<br><br>This is calculated using the average share price for the final quarter of the financial year ending 30 June 2016, which was 1,532p. |
| **Total** | £1,605,537 | £997,411 | This should be viewed in the context of:<br>• A total shareholder return over the 2015/6 financial year of £97.8m (+11.2%)<br>• Adjusted EPS growth of +7% (10% in constant currency) |

# Directors' Remuneration Report continued

## Section C: At a Glance continued

### What Executive Directors Can Earn in 2017 and How

| | Chief Executive | Group Finance Director | Explanation |
|---|---|---|---|
| **Base salary** | £548,114 | £371,423 | The Executive Directors have been awarded a salary increase of 2% as from 1 July 2016: this will be paid in September, backdated to July. |
| **Benefits** | £25,000 | £14,000 | There is no change to benefits. |
| **Pension** | £137,029 | £55,713 | The Chief Executive continues to be paid a 25% cash allowance in lieu of participation in a pension plan; the Group Finance Director receives a 15% cash allowance. |
| **Annual bonus** | A **core bonus** element with target value of 62.5% of salary and a maximum bonus of 125% of salary<br><br>A **Company Milestone** element with an award of up to 75% of salary for achievement of Company Milestone | A **core bonus** element with target value of 62.5% of salary and a maximum bonus of 125% of salary<br><br>A **Company Milestone** element with an award of up to 50% of salary for achievement of Company Milestone | **Core Bonus Element**<br>The measures for the core bonus element will remain:<br>• Adjusted profit before tax growth → 80% of salary.<br>• Cash generation → 20% of salary.<br>• Personal objectives → 25% of salary.<br><br>For the adjusted profit before tax growth measure, target bonus requires 10% growth and maximum bonus requires 15% growth in constant currency.<br><br>Gene editing costs will be excluded in the calculation of adjusted profit growth and cash generation for 2016/17.<br><br>**Company Milestone Element**<br>The Committee has determined eligibility for an award in respect of achieving an identified Company milestone during 2017. Due to commercial sensitivity, this will be disclosed retrospectively in the 2017 Annual Report.<br><br>The opportunity is up to 75% of salary for the Chief Executive and up to 50% for the Group Finance Director. These levels have been set following consideration of reward opportunities available from both UK and international benchmarks. |
| **Performance Share Plan –** November 2014 awards | Up to 86,271 shares | Up to 51,153 shares | The vesting of these awards depends on the adjusted EPS achieved in 2017. Full details are given on page 80.<br><br>This will be calculated excluding gene editing costs as described elsewhere in this report. |
| **Performance Share Plan –** awards that will be granted in 2016 and may vest in 2019 | An award over shares worth 200% of salary | An award over shares worth 175% of salary | The vesting of these awards will be subject to an adjusted EPS growth condition, with the 2019 EPS being compared to the 2016 adjusted EPS of 57.1p (excluding gene editing costs).<br><br>5% annual growth → threshold 20% vesting.<br><br>15% annual growth → 100% vesting.<br><br>Vesting levels will be calculated on a straight line basis between the above values.<br><br>This will be calculated excluding gene editing costs as described elsewhere in this report. |

### Annual Bonus Structure for Chief Executive: 2017

| | 2017 | | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **Core Bonus Element** | **25% of salary**<br>Personal<br><br>**80% of salary**<br>PBT<br><br>**20% of salary**<br>Cash flow | Award Determined | **75%** of any award: Paid in cash<br><br>**25%** of any award: Compulsory Share Deferral | | | **Shares Released** |
| **Company Milestone Element** | **75% of salary**<br>Remuneration Committee determine annually in advance if element included | Award Determined | **100%** of any award: Compulsory Share Deferral | | | **Shares Released** |
| **Total Annual Bonus opportunity for Chief Executive** | **Up to 200% of salary** | | | | | |

# Section D: Remuneration and Performance Statement

## Genus's Strategy and its Link to Performance-Related Pay

| Strategy | Success measured by | | Link to Remuneration Policy |
|---|---|---|---|
| Increase genetic control and product differentiation | R&D and business innovation<br>Proprietary genetic improvement and dissemination positions | → | Captured within the personal objectives element of the annual bonus and through the Company Milestone element |
| Targeting key markets and segments | Volume growth<br>Operating profit | → | Measured through the profit element of the annual bonus<br>Over the longer term will flow into EPS, used to determine vesting under the PSP Plan |
| Sharing in the value delivered | Cash conversion | → | Measured through the cash element of the annual bonus |

See pages 65 to 72 for our Remuneration Policy

## Performance Components and Their Impact on Remuneration

| | 2015 | 2016 | Movement % | Impact on remuneration |
|---|---|---|---|---|
| **Adjusted Results** | | | | |
| Revenue | £398.5m | £388.3m | (3) | Input to annual bonus profit and EPS in Performance Share Plan. |
| Adjusted profit before tax | £46.6m | £49.7m | 7 | Annual bonus measure. |
| Cash generation | £22.6m | £15.7m | (31) | Annual bonus measure; performance reflects increased capital investment in 2015/16. |
| Adjusted earnings per share | 56.8p | 60.7p | 7 | Performance Share Plan performance condition. |
| Dividend per share | 19.5p | 21.4p | 10 | Executives rewarded via dividend equivalent feature of deferred bonuses and Performance Share Plan awards. |
| Share price at year end | 1,427p | 1,565p | 10 | Determines the value of deferred bonuses and Performance Share Plan awards. |

Values in the table are in actual currency as shown in the Annual Report. A number of adjustments are made to these for the purposes of calculating awards under our incentive plans as described within this report.

## Executive Directors' Alignment to Share Price

| | Shares owned | Maximum rights to shares | Total share exposure | Value at share price on 1 July 2015 (£)[1] | Value at share price on 30 June 2016 (£)[2] | Difference (£) | Consequence of a +/- 50 pence share price change (£) | Conclusion |
|---|---|---|---|---|---|---|---|---|
| Chief Executive | 50,213 | 258,298 | 308,511 | 4,451,814 | 4,828,197 | 376,383 | 154,256 | Executives are aligned to share price |
| Group Finance Director | 8,433 | 153,728 | 162,161 | 2,339,983 | 2,537,820 | 197,837 | 81,081 | |

1 Value of share price on 1 July 2015 – £14.43.
2 Value of share price on 30 June 2016 – £15.65.

# Directors' Remuneration Report continued

## Section E: Annual Report on Remuneration

### Introduction

There are extensive legal and best practice disclosure obligations with which we comply in this section of the Directors' Remuneration Report. The Directors' Remuneration Report is subject to an advisory vote at the AGM, with the new Directors' Remuneration Policy in Section B being subject to a separate binding vote at this year's AGM.

Balancing this formality with a desire to have a clear and understandable report, we have split this section into the following chapters:
1. What the Executive Directors were paid in 2016.
2. What the Executive Directors can earn in 2017.
3. The process the Committee followed to arrive at these decisions.
4. How the Chief Executive's pay compares to shareholder returns over the past six years and to employees' pay.
5. The Chairman and Non-Executive Directors' fees.
6. Details of the Directors' shareholdings and rights to shares.
7. Details of the Directors' contracts and Non-Executive Directors' letters of appointment.

### 1. What the Executive Directors Were Paid in 2016

**Executive Directors' Single Total Remuneration Figure (Audited)**

The following table shows a single total figure of remuneration for the 2016 financial year for each of the Executive Directors and compares this figure to the prior year. Variable pay remains in line with last year, based on another year of good overall performance.

| | Year | Salary and fees £000 | Benefits[1] £000 | Pension[2] £000 | Subtotal for fixed pay £000 | Bonus[3] £000 | Long-term incentives[4] £000 | Subtotal for variable pay £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|
| Karim Bitar | 2016 | 537 | 23 | 135 | 695 | 526 | 385 | 911 | 1,606 |
| | 2015 | 527 | 24 | 132 | 683 | 650 | 289[5] | 939 | 1,622[5] |
| Stephen Wilson | 2016 | 364 | 14 | 54 | 432 | 356 | 209 | 565 | 997 |
| | 2015 | 357 | 14 | 53 | 424 | 435 | 144[5] | 579 | 1,003[5] |

1 Benefits comprise a car allowance of £20,000 for Karim Bitar and £12,000 for Stephen Wilson, insured benefits include life assurance and private medical insurance and a medical screen.
2 Executive Directors receive a cash allowance in lieu of pension shown in the Pension column.
3 Bonus earned excludes gene editing costs incurred in 2016 (outlined in the following section) and includes the 25% which is deferred into Company shares for three years.
4 The value of long-term incentives is determined by the number of awards vesting in relation to performance ended 30 June 2016. Dividend equivalents are not added to awards made under the long-term incentives. The value shown for 2016 is based on the average share price for the final three months of the 2016 financial year (which was 1,532p).
5 The 2015 values shown in the previous Annual Report have been updated to reflect the actual value at vesting (share price was 1,496p (vesting 8 December 2015) for awards for the Chief Executive and 1,431p (vesting 29 February 2016) for awards for the Group Finance Director).

**How the Bonuses for 2016 Were Calculated**

The 2016 bonuses for Executive Directors were calculated by reference to performance against a challenging sliding scale of profit, cash flow and personal targets. As disclosed in the Remuneration Committee Chairman's letter, the Committee exercised discretion to exclude costs relating to gene editing incurred in the year when calculating awards under the plans. These costs were unforeseen at the time of setting targets for these awards and the Committee believes that the targets remain as stretching as when the awards were originally made. This ensured management's reward was not unfairly affected by decisions to make the right long-term investment decisions on behalf of the business.

The following are the results achieved in each element of the annual bonus incentive in a year of solid performance.

| Bonus target | Strategic objective | Proportion of bonus | Actual 2016 performance | Threshold | Target | Stretch | Extent to which targets were met (%) |
|---|---|---|---|---|---|---|---|
| Adjusted PBT[1] | Year-on-year profit growth[2] | 60% | £52.1m | £46.6m | £51.2m | £53.5m | 67.9% |
| Cash flow | Generate cash for reinvestment and dividend[3] | 15% | £18.6m | £11.0m | £14.0m | £17.0m | 100% |
| Non-financial strategic objectives | To build the foundation for future growth | 25% | See table below | | | | Chief Executive 90%<br>Group Finance Director 90% |

1 Adjusted PBT in constant currency (actual currency was £49.7m).
2 Adjusted PBT excludes gene editing costs of £0.9m, as agreed by the Remuneration Committee. Without this adjustment the award level would have been 49.6% of maximum for this part of the bonus.
3 Cash flow excludes gene editing costs of £0.9m and capital expenditure of £2.0m, as agreed by the Remuneration Committee. Without this adjustment the award would have been 78% of maximum. The financial elements of the bonus are payable on a straight-line basis between each threshold, target and stretch level.

Overall extent to which the bonus targets were met:

| |
|---|
| Chief Executive 78.2%<br>Group Finance Director 78.2% |

Performance against non-financial strategic objectives related to targets set in a number of areas that included customer, people, and product and service improvement. Retrospective disclosure of performance against these targets is:

| Executive Director | | Key achievements in the year | Payout against maximum of 25% of bonus |
|---|---|---|---|
| **Karim Bitar** | Customer | Achieved porcine targeted profit, volume and royalty growth in key markets, most significantly in China.<br><br>In the bovine business, global volumes of doses declined 6%, adjusted operating profit lower in tough market conditions. Improved capability and tools through GMS 2.0 launch, IVB laboratory facilities operational in US and at advanced construction in Mexico; Indian JV stud now fully operational. | 90% |
| | People | Further strengthening of leadership and succession, specifically in research and development.<br><br>Staff engagement scores in staff survey maintained their very high level (see page 40). Significant improvement in H&S execution. | |
| | Product and service improvement | Continued acceleration of genetic improvement in PIC and reduced genetic lag to 3.3 years (like-for-like sites). This is described in more detail on page 16 (Key Performance Indicators).<br><br>Significant progress on GSS: scaling up of technology to commercial launch readiness and pursuit of litigation. Significant progress on gene editing, with breeding of PRRSv resistant pigs and strategic collaboration with Caribou Biosciences on CRISPR-Cas9 gene editing technology. | |
| | Results | Strategic review completed, with foundations of beef business set for 2016/17. | |
| **Stephen Wilson** | Customer/ stakeholders | Strengthened the good relationships with the Company's shareholders, evidenced by broker feedback following roadshows. | 90% |
| | People | Further strengthening of team, with high-quality recruits into Finance and IT. | |
| | Product and service improvement | Led the strategic review for the Board.<br><br>Continued support for acquisitions, licensing and partnerships, including University of Missouri (PRRSv) and Caribou Biosciences (gene editing technology).<br><br>Introduced IT tools supporting better sales force engagement with customers through mobile technology and for the business with improved forecasting and budgeting tools. | |
| | Results | Reviewed the capital structure and refreshed external borrowing facilities.<br><br>Led negotiations with the Milk Pension Fund to adopt CPI (replacing RPI) for increases.<br><br>Maintained tight internal cost management, risk management and controls. | |

As a result of this performance, the bonuses awarded to the Executive Directors were:

| | Extent to which targets were met | Maximum bonus | Actual total bonus[1] | Bonus payable immediately | Deferred bonus[2] |
|---|---|---|---|---|---|
| Karim Bitar | 78.2% | £671,709 | £525,545 | £394,159 | £131,386 |
| Stephen Wilson | 78.2% | £455,175 | £356,129 | £267,097 | £89,032 |

1 This is the number that appears in the single total remuneration figure on page 76.
2 The number of shares will be calculated in September when bonuses are paid.

# Directors' Remuneration Report continued

## Section E: Annual Report on Remuneration continued

**How the Long-Term Incentive Figure Was Calculated in the Single Total Remuneration Table**
Karim Bitar's and Stephen Wilson's 2014 PSP awards granted on 26 September 2013 were both subject to an adjusted EPS performance condition, based on the growth in adjusted EPS from a base year of 2013 compared to the adjusted EPS in 2016. These awards were granted under our former policy. The performance targets were as follows in relation to the awards:

### Tier 1
The range of targets applicable to awards with a value of 125% of salary for the Chief Executive and 100% of salary to the Group Finance Director were as follows:

| Per annum growth in adjusted EPS* | % of award vesting** |
|---|---|
| <RPI +4% | Nil |
| RPI +4% | 30% |
| RPI +11% | 100% |

### Tier 2
The range of targets applying to an additional award with a value of 75% of salary were as follows:

| Per annum growth in adjusted EPS* | % of award vesting*** |
|---|---|
| <RPI +9% | Nil |
| RPI +9% | 10% |
| RPI +10% | 20% |
| RPI +11% | 35% |
| RPI +20% | 100% |

* Growth in adjusted EPS over the three-year performance period will be computed based on a simple average annual growth rate.
** From RPI +4%, a linear scale of 10% vesting per % increase in adjusted EPS was applied.
*** From RPI +11%, a linear scale of 7% vesting per % increase in adjusted EPS was applied.

As with the short-term award, the Committee exercised discretion to calculate the long-term award after the exclusion of gene editing costs incurred in 2016, to avoid a perverse impact on the Executives' remuneration.

The adjusted 2016 EPS after the cost of share based payments and adjusting for costs relating to gene editing was 57.1p. The comparable base 2013 adjusted EPS figure after the cost of share based payments was 45.5p. This represents a three-year growth rate of 25.4%. RPI over the three-year period was 5.7%. As a consequence, the average annual growth in EPS was RPI+6.6%. By applying the performance condition calibration, the resulting level of vesting is 34.4% for Karim Bitar and 31.4% for Stephen Wilson. The different level of overall vesting reflects the higher level of award made to Karim Bitar under Tier 1 above.

Karim Bitar's award was over a maximum of 73,107 shares, so the actual level of vesting is 25,149 shares and these will vest on 27 September 2016. Stephen Wilson's award was over a maximum of 43,347 shares, so the actual level of vesting is 13,611 shares and these will vest on 27 September 2016.

The Company's average share price for the period 1 April 2016 to 30 June 2016 was 1,532p, meaning that the value of Karim Bitar's award was £385,283 and Stephen Wilson's award was worth £208,521.

**Material Contracts**
There have been no other contracts or arrangements during the financial year in which a Director of the Company was materially interested and/or which were significant in relation to the Group's business.

**Payments for Loss of Office and Payments to Former Directors (Audited)**
There were no payments for loss of office in the year. John Worby ceased to be a Director on 31 March 2013. Consistent with the terms of the relevant incentive plans, and as set out in previous Remuneration Reports, he was treated as a 'good leaver' on his retirement. His outstanding long-term incentive award granted on 7 December 2012 which was subject to performance ended 30 June 2015 vested on 8 December 2015. 23.4% of this award vested and as a result 3,089 shares were transferred to John with a value of £42,134, based on the share price on the date of transfer of £13.64.

**Executive Directors' External Appointments**
Executive Directors are permitted to accept an external non-executive position, with the Board's approval. Any fees received in respect of these appointments may be retained by the executive. Stephen Wilson received £42,436 in relation to his Non-Executive Directorship at Xchanging plc for the period from 1 July 2015 to 5 May 2016.

## 2. What the Executive Directors Can Earn in 2017

A summary of this chapter is given on page 74.

**Base Salary**

The Committee reviews the Executive Directors' base salaries prior to each financial year, taking into account factors such as individual and corporate performance, an assessment of market conditions and, most importantly, the salary increases applicable to the Group's other UK employees.

The Executive Directors' current salary levels (with effect from 1 July 2016 and paid in September) are as follows:

- Karim Bitar: £548,114 (2% increase from 2016); and
- Stephen Wilson: £371,423 (2% increase from 2016).

The Committee determined that salaries would be increased by 2%, reflecting the average increase awarded across the UK employee population. It did not refer to other market benchmarking data this year when making this decision.

Salary awards will move to a September review date from 2017, with no backdating of awards.

**Benefits**

The Executive Directors will receive the following benefits-in-kind, namely a car allowance, life assurance, an annual medical screen and private medical insurance.

**Pension**

In lieu of Company pension contributions, the Company pays Karim Bitar and Stephen Wilson a taxable pension allowance of 25% and 15% of basic salary per annum respectively.

**Performance-Related Annual Bonus**

Consistent with the proposed Remuneration Policy, the Company bonus scheme for the 2016/17 financial year for the Executive Directors is:

| | |
|---|---|
| Value of bonus | Maximum up to 200% of salary comprising:<br>**A core bonus element** of 125% of salary based on profit, cash and personal objectives<br>**A Company Milestone** element of up to 75% and 50% of salary for the Chief Executive and the Group Finance Director respectively. |
| Bonus | **Chief Executive**<br>On target value of bonus 62.5% (core bonus element) plus 37.5% (Company Milestone element); total on-target 100%.<br>Maximum bonus 200% of salary.<br><br>**Group Finance Director**<br>On target value of bonus 62.5% (core bonus element) plus 25% (Company Milestone element); total on-target 87.5%.<br>Maximum bonus 175% of salary. |
| Performance measures | Adjusted profit before tax – 80% of salary weighting.<br>Cash generation – 20% of salary weighting.<br>Personal objectives – 25% of salary weighting.<br>Company Milestone target – 75% of salary weighting for Chief Executive.<br>– 50% of salary weighting for Group Finance Director. |
| Calibration of profit target | No bonus is payable unless the prior year's result is exceeded. Thereafter, the core bonus award is determined on the following basis: (see table below)<br>Straight-line payout between performance points.<br>* In constant currency and excluding gene editing costs. |
| Calibration of cash generation target | The cash target is the budgeted figure, with a specific range of £3m below the target and £3m above. Specific numbers were set (rather than a percentage range) to ensure the executives were focused on actual cash generation. |
| Calibration of personal objectives | Personal objectives are linked to successful implementation of objectives for the Executive Directors. It would be commercially sensitive to disclose them in advance. We will disclose retrospective performance against these targets. |
| Company Milestone | Company Milestones represent pivotal and significant events in the Company's development, which reposition the Company as an agricultural biotechnology pioneer. Such events would be significant strategic achievements and long-term value creating.<br><br>The Committee has determined that this element of the annual bonus will be included for 2016/17 for the Chief Executive and Group Finance Director. The target and whether this has been achieved will be disclosed retrospectively. |

| Growth on prior year adjusted profit before tax ('PBT')* | Payout (profit element) | Percentage of salary awarded |
|---|---|---|
| 0% | 0% | 0% |
| 10% p.a. delivers | 50% | 40% |
| 15% p.a. | 100% | 80% |

# Directors' Remuneration Report continued

## Section E: Annual Report on Remuneration continued

| | |
|---|---|
| Bonus deferral | Of the 125% core bonus element, 25% will be deferred by way of shares for three years and will vest subject to continued employment, other than in certain good leaver circumstances.<br><br>For achievement of the Company Milestone element, any award of up to 75% of salary for the Chief Executive and 50% for the Group Finance Director will be deferred by way of shares for three years and will vest subject to continued employment, other than in certain good leaver circumstances. |
| Malus and clawback | The Committee can apply malus to deferred bonuses and claw back any element of paid bonuses that should not have been awarded or paid, in the event of a material misstatement of the Group's annual results. |

**Long-Term Incentives**
Awards to be granted in 2016 will be granted in line with the policy approved by shareholders and under the 2014 Performance Share Plan. The Chief Executive will be granted an award over shares worth 200% of salary and the Group Finance Director will be granted an award over shares worth 175% of salary. These awards are in line with those in 2015.

The performance targets for the awards to be granted in 2016 will primarily relate to average annual growth in adjusted EPS, measured over three years and excluding gene editing costs. The same approach will govern awards due to vest in 2017 and 2018.

The range of targets for the 2016 awards is as follows:

| Average annual growth in adjusted earnings per share ('EPS')* | Vesting (% award) |
|---|---|
| Less than 5% p.a. | 0% |
| 5% p.a. | 20% |
| 15% p.a. | 100% |
| Straight-line vesting between performance points | |

* Growth in adjusted EPS over the three-year performance period will be calculated on a simple average annual growth rate after the cost of share based payments and gene editing.

The Committee remains convinced that using adjusted EPS is the correct approach, for the reasons set out in the Performance and Remuneration Statement earlier. The Committee believes the above targets are appropriately challenging, that they incentivise executives to deliver the Company's growth strategy and are therefore aligned with shareholders' interests. They also adhere to the principles of transparency and simplicity, to maximise the incentive provided to participants by the 2014 PSP.

As with awards currently granted under the 2014 PSP, the Committee will retain the ability to scale back vesting based on EPS performance if it does not consider the vesting result to be consistent with the progress achieved against the Company's strategy during the performance period. This is considered appropriate to broaden the executive team's focus beyond financial performance.

2014 PSP awards granted in 2016 will continue to require the executives to retain the after-tax number of shares vesting in 2019 for two years. Clawback and malus provisions may be applied at the Committee's discretion, if the Company's results are found to have been materially misstated within three years of vesting.

### 3. The Process the Committee Followed to Arrive at These Decisions
The Committee complies with the UK Corporate Governance Code. It makes recommendations to the Board, within agreed terms of reference, on remuneration for the Executive Directors and other members of GELT. The Committee's full terms of reference are available on the Company's website at www.genusplc.com.

During 2016, the Committee comprised:

| Director | Independent status | Attendance at meetings |
|---|---|---|
| Nigel Turner (Chairman) | Yes | 6/6 |
| Mike Buzzacott | Yes | 6/6 |
| Duncan Maskell | Yes | 6/6 |
| Lykele van der Broek | Yes | 6/6 |
| Lysanne Gray* | Yes | 2/3 |
| Bob Lawson | Yes | 6/6 |

* Lysanne Gray joined the Board on 1 April 2016.
** Due to prior commitments pre-appointment, Lysanne Gray was unable to attend the April 2016 Remuneration Committee meeting following her appointment. However, Lysanne was provided with all Committee materials and submitted feedback via the Chairman prior to the meeting.

None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Chief Executive and the Group Finance Director attend meetings at the invitation of the Committee, but are not present when their own remuneration is being discussed. The Committee is supported by the Group HR Director and the Finance and Company Secretariat functions.

During the year, the Committee continued to use PwC for advice it considers is of value, objective and independent. PwC's fees were £88,900 for its remuneration advice to the Committee. PwC is a member of the Remuneration Consultants Group and complies with its Code of Conduct. Separate teams within PwC provide unrelated advisory services including taxation, international assignments and acquisition related services to the Group.

During the year to 30 June 2016, the Committee met six times and considered the following matters:

| August 2015 | September 2015 | November 2015 |
|---|---|---|
| • Review of Directors' Remuneration Report. | • Approval of the Directors' Remuneration Report 2015.<br>• The terms of the 2015 and 2016 Executive Annual Bonus Plan, and the individual bonuses payable for 2015, in light of the Group's and individuals' performances.<br>• Testing of the performance conditions and approval of the vesting levels of long-term share incentive awards granted in 2012.<br>• The individual long-term share incentive awards under the Company's 2014 PSP and 2014 Executive Share Option Plan, and the associated performance measures and targets.<br>• Review of shareholdings by Executive Directors and GELT.<br>• Approval of PSP for senior leadership. | • Review of shareholder voting on the Annual Remuneration Report.<br>• Review of remuneration reporting for 2015. |
| **April 2016** | **May 2016** | **June 2016** |
| • Review of the appropriateness of the Company's Remuneration Policy and discussion of policy changes for the Executive Directors. | • Reward development discussions on appropriate policy for Executive Directors. | • Reward proposals for 2017.<br>• Shareholder consultation discussion. |

**How Shareholders' Views are Taken into Account**
There was no consultation with shareholders during the year ending 30 June 2016.

| | Vote on Directors' Remuneration Report (advisory) | |
|---|---|---|
| | Total number of votes | % of votes cast |
| For | 41,034,391 | 99.55 |
| Against | 184,719 | 0.45 |
| **Total number of shares in respect of which votes were validly made** | 41,219,110 | 100 |
| Votes withheld | 216,983 | |

**How Employees' Pay is Taken into Account**
While the Company does not consult employees on matters of Directors' remuneration, the Committee does take account of the policy for employees across the workforce when determining the Remuneration Policy for Directors.

The Group HR Director facilitates this process, presenting to the Committee the pay structures across the organisation and how they fit the Group's Remuneration Policy. The process includes an annual staff engagement survey that includes questions on pay, as well as consulting employees informally on their views of the current overall Remuneration Policy. This forms part of the feedback provided to the Committee and is used by the Group HR Director to assess the Policy's ongoing effectiveness and the changes that should be made.

When setting the Executive Directors' base salaries, the Committee compares the salary increases proposed for each Executive Director within those proposed for employees in their geographical location, as well as considering the typical increase proposed across the Group as a whole.

# Directors' Remuneration Report continued

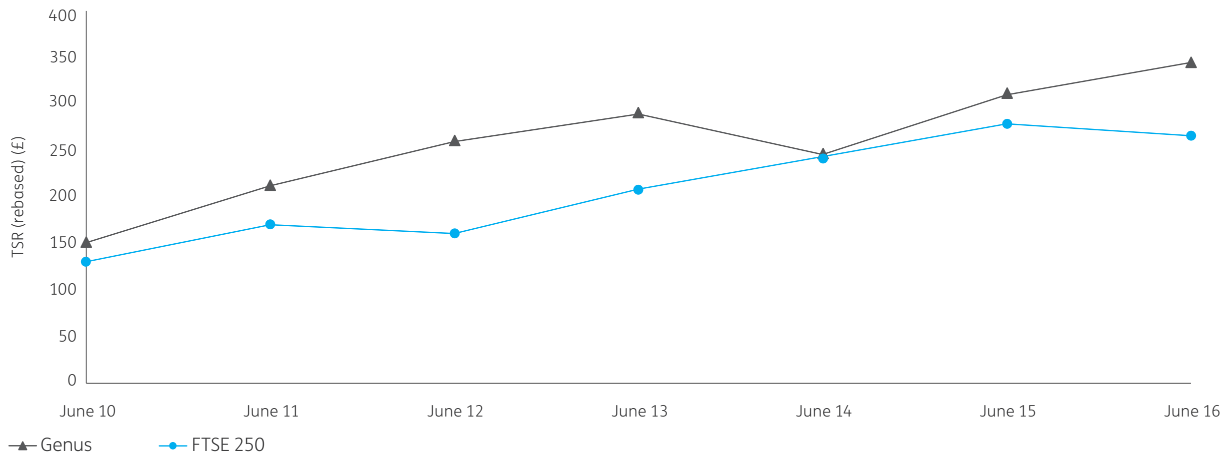
## Section E: Annual Report on Remuneration continued

### 4. How the Chief Executive's Pay Compares to Shareholder Returns Over the Past Seven Years and to Employees' Pay

**Total Shareholder Return**

The following graph shows the Company's performance measured by total shareholder return ('TSR'), compared with the TSR performance of the FTSE 250 Index. The FTSE 250 Index was selected as it represents a broad equity market of which the Company is a member.

**7 years of EPS**




This graph shows the value, by 30 June 2016, of £100 invested in Genus plc on 30 June 2009 compared with the value of £100 invested in the FTSE 250 Index.
Source: Thomson Datastream

| | Year ending 30 June | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Richard Wood | | | Karim Bitar | | | | |
| | 2010 | 2011* | 2012 | 2012** | 2013 | 2014 | 2015 | **2016** |
| Total remuneration (£000) | £2,034 | £2,383 | £231 | £1,776 | £868 | £877 | £1,622 | **£1,606** |
| Annual bonus (% of max) | 64% | 94% | 88% | 77% | 31% | 32% | 99% | **78%** |
| Total PSP vesting (% of max) | 100% | 88% | – | – | – | – | 26% | **34%** |

* PSP vesting relates to all awards that were tested early on cessation of employment.
** Includes payment (as previously disclosed) for loss of annual bonus (£163,000) and the value of restricted stock (£755,000) granted to compensate him for loss of value forfeit on joining Genus.

**Chief Executive Pay Compared to Genus Employees**
Remuneration Received (% Change From 2015 to 2016)

| | Salary | Benefits | Annual bonus |
|---|---|---|---|
| Chief Executive | 2.0% | -4% | -19% |
| UK comparators* | 1.9% | 0% | -16% |

* A subset of the UK workforce comprising circa 25 employees with a bonus structure based on Group performance. This is considered the most relevant comparator group for these purposes.

**Distribution Statement**

| | 2015 | **2016** | % Change |
|---|---|---|---|
| Employee costs (£m) | £109.1m | **£118.4m** | 9% |
| Distributions to shareholders* | £11.1m | **£12.2m** | 10% |

* Includes dividends and share buy-backs.

### 5. The Chairman and Non-Executive Directors' Fees

Fees payable to the Non-Executive Directors per annum are as follows:

| Position | 2015 Fees | 2016 Fees | 2017 Fees |
|---|---|---|---|
| Chairman | £140,000 | £160,000 | £160,000 |
| Audit and Remuneration Committee Chairs | £50,000 | £60,000 | £60,000 |
| Base Non-Executive Director fee | £50,000 | £55,000 | £55,000 |

Fees were increased in 2016 (as explained in the Directors' Remuneration Report set out in the 2015 Annual Report and approved at the 2015 AGM): the Chairman's fee, which had not been reviewed since 2010, was increased to £160,000 and Non-Executive Director fees, which were last reviewed in 2012, increased to £55,000 which total amount includes, for each of them, their fees for their extra services in respect of the time commitment and responsibilities attributed to their membership of the Board's Committees. The additional services from the responsibilities of chairing the Audit and Remuneration Committees were also recognised with an additional fee of £5,000, giving the Chairs of these Committees a total fee of £60,000.

Fees will continue at this level for 2017.

**Total Single Figure of Remuneration (Audited) for 2015 and 2016 are as follows:**

| | | Fees | Taxable expenses | Benefits | TOTAL |
|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | |
| Bob Lawson | 2016 | 160 | 3 | – | 163 |
| | 2015 | 140 | – | – | 140 |
| Nigel Turner | 2016 | 60 | 2 | – | 62 |
| | 2015 | 50 | – | – | 50 |
| Mike Buzzacott | 2016 | 60 | 2 | – | 62 |
| | 2015 | 50 | – | – | 50 |
| Duncan Maskell | 2016 | 55 | 2 | – | 57 |
| | 2015 | 50 | – | – | 50 |
| Lykele van der Broek | 2016 | 55 | – | 6 | 61 |
| | 2015 | 50 | – | – | 50 |
| Lysanne Gray | 2016 | 14 | – | – | 14 |
| | 2015 | Nil | – | – | – |
| **Total** | 2016 | 404 | 9 | 6 | 419 |
| | 2015 | 340 | – | – | 340 |

The Non-Executive Directors' taxable expenses relate to taxable travel expenses related to their role and have been grossed up for tax where applicable.

## 6. Details of the Directors' Shareholdings and Rights to Shares

**Directors' Shareholdings (Audited)**
The Directors had the following interests in the Company's shares:

| | At 30 June 2016 Number | % of salary held* | % of shareholding guideline** | Unvested DSBP awards at 30 June 2016 Number | Unvested PSP awards held at 30 June 2016 Number | At 30 June 2015 Number |
|---|---|---|---|---|---|---|
| Bob Lawson | 7,201 | n/a | n/a | n/a | n/a | 7,201 |
| Karim Bitar | 50,213 | 173% | 173% | 20,070 | 238,228 | 40,008 |
| Stephen Wilson | 8,433 | 63% | 63% | 12,475 | 141,253 | 3,071 |
| Nigel Turner | 15,000 | n/a | n/a | n/a | n/a | 15,000 |
| Mike Buzzacott | 4,000 | n/a | n/a | n/a | n/a | 4,000 |
| Duncan Maskell | 0 | n/a | n/a | n/a | n/a | – |
| Lykele van der Broek | 3,750 | n/a | n/a | n/a | n/a | – |
| Lysanne Gray | 0 | n/a | n/a | n/a | n/a | – |
| **Total** | 88,597 | | | 32,545 | 379,481 | 69,280 |

* Based on the combined number of beneficially held shares and the net of tax DSBP awards held and the average closing share price over the three months to 30 June 2016 of 1,532 pence.
** During 2016, executives were expected to achieve a shareholding of 100% of salary as set out in the Remuneration Policy agreed by shareholders in 2014.

There were no changes in the Directors' interests between 30 June 2016 and the date of this report.

**Company Share Price**
The market price of the Company's shares on 30 June 2016 was 1,565 pence and the lowest and highest share prices during the financial year were 1,281 pence and 1,620 pence respectively.

# Directors' Remuneration Report continued

## Section E: Annual Report on Remuneration continued

**Performance Share Awards Granted in 2016 (Audited)**
The awards granted under the 2014 PSP were as follows:

| Executive | Number of shares comprising award | Face/maximum value of awards at grant date (% salary)* | % of award vesting at threshold | Performance period |
|---|---|---|---|---|
| Karim Bitar | 78,850 | £1,074,726 (200%) | 20 | 01.07.15–30.06.18 |
| Stephen Wilson | 46,753 | £637,243 (175%) | 20 | 01.07.15–30.06.18 |

* The closing average share price over the three days prior to the award being granted has been used to determine the maximum face value of the awards. This was £13.63 for Karim Bitar and Stephen Wilson (award granted on 14 September 2015).

The awards were granted as nil-cost share options and vesting will be subject to achieving a challenging sliding scale of adjusted EPS growth target and a strategic underpin, consistent with our approved Remuneration Policy. The adjusted EPS growth performance target for the above awards is:

| Average annual growth in adjusted EPS | Vesting (% award) |
|---|---|
| Less than 6% p.a. | 0% |
| 6% p.a. | 20% |
| 20% p.a. | 100% |
| Straight-line vesting between performance points | |

* Growth in adjusted EPS over the three-year performance period will be calculated on a simple average annual growth rate after the cost of share based payments and adjusted for gene editing costs.

**Deferred Bonus Awards Granted in 2016 (Audited)**
The basis of the awards' calculation is described in more detail on page 76, which resulted in the following DSBP awards being granted in relation to the 2015 annual bonus:

| Executive | Number of shares comprising award | Face value of awards at grant date* |
|---|---|---|
| Karim Bitar | 11,927 | £162,565 |
| Stephen Wilson | 7,980 | £108,767 |

These awards are not subject to any further performance conditions and will normally vest in full on 14 September 2018, subject to continued service.

* The awards were granted on 14 September 2015. The share price used to grant awards was £13.63.

**Summary of Scheme Interests (Audited)**
The Executive Directors at 30 June 2016 had the following beneficial interests in share awards and share options:

### Karim Bitar

| Grant date | Award | Vesting period | Share price at grant | At 30 June 2015 Number | Granted in year Number | Lapsed in year Number | Exercised in year Number | **At 30 June 2016 Number** |
|---|---|---|---|---|---|---|---|---|
| 7 December 2012 | PSP | 7 December 2012 to 8 December 2015 | 1,369p | 75,420 | – | (56,113) | (19,307) | **0** |
| 26 September 2013 | PSP | 26 September 2013 to 27 September 2016 | 1,413p | 73,107 | – | – | – | **73,107** |
| 30 December 2013 | DSBP | 30 December 2013 to 27 September 2016 | 1,413p | 3,495 | – | – | – | **3,495** |
| 21 October 2014 | DSBP | 21 October 2014 to 21 October 2017 | 1,111p | 4,648 | – | – | – | **4,648** |
| 20 November 2014 | PSP | 20 November 2014 to 20 November 2017 | 1,221p | 86,271 | – | – | – | **86,271** |
| 14 September 2015 | DSBP | 14 September 2015 to 14 September 2018 | 1,363p | – | 11,927 | – | – | **11,927** |
| 14 September 2015 | PSP | 14 September 2015 to 14 September 2018 | 1,363p | – | 78,850 | – | – | **78,850** |
| **Total** | | | | **242,941** | **90,777** | **(56,113)** | **(19,307)** | **258,298** |

### Stephen Wilson

| Grant date | Award | Vesting period | Share price at grant | At 30 June 2015 Number | Granted in year Number | Lapsed in year Number | Exercised in year Number | At 30 June 2016 Number |
|---|---|---|---|---|---|---|---|---|
| 28 February 2013 | PSP | 28 February 2013 to 29 February 2016 | 1,422p | 43,063 | – | (32,987) | (10,076) | **0** |
| 26 September 2013 | PSP | 26 September 2013 to 27 September 2016 | 1,413p | 43,347 | – | – | – | **43,347** |
| 30 December 2013 | DSBP | 30 December 2013 to 27 September 2016 | 1,413p | 1,050 | – | – | – | **1,050** |
| 21 October 2014 | DSBP | 21 October 2014 to 21 October 2017 | 1,111p | 3,445 | – | – | – | **3,445** |
| 20 November 2014 | PSP | 20 November 2014 to 20 November 2017 | 1,221p | 51,153 | – | – | – | **51,153** |
| 14 September 2015 | DSBP | 14 September 2015 to 14 September 2018 | 1,363p | – | 7,980 | – | – | **7,980** |
| 14 September 2015 | PSP | 14 September 2015 to 14 September 2018 | 1,363p | – | 46,753 | – | – | **46,753** |
| **Total** | | | | **142,058** | **54,733** | **(32,987)** | **(10,076)** | **153,728** |

In relation to the share awards granted on 14 September 2015, the closing average share price over the three days prior to 14 September 2015 (the grant date for the PSP awards) was used (1,363 pence) to determine the number of shares comprising individual awards.

The performance targets applying to the 14 September 2015 awards are as described above. All the earlier 2004 PSP awards made prior to 2014 have a more complicated structure to their EPS targets and these are described in our previous Annual Reports. No further performance conditions apply to the DSBP awards.

**Dilution**
The aggregate dilution of all relevant share incentives is 5.54% at 30 June 2016, which is less than the permissible 10% in ten years dilution limit.

### 7. Details of the Directors' Contracts and Non-Executive Directors' Letters of Appointment

| Director | Appointment date | Current contract date | Expiry date | Notice period (Months) |
|---|---|---|---|---|
| **Executives** | | | | |
| Karim Bitar | 24 May 2011 | 24 May 2011 | n/a | 12 (from Company) 6 (from executive) |
| Stephen Wilson | 12 December 2012 | 12 December 2012 | n/a | 12 (from Company) 6 (from executive) |
| **Non-Executives** | | | | |
| Bob Lawson | 11 November 2010 | 11 November 2013 | 10 November 2016 | 1 |
| Nigel Turner | 17 January 2008 | 16 January 2014 | 15 January 2017 | 1 |
| Mike Buzzacott | 7 May 2009 | 5 May 2015 | 4 May 2018 | 1 |
| Duncan Maskell | 1 April 2014 | 1 April 2014 | 31 March 2017 | 1 |
| Lykele van der Broek | 1 July 2014 | 1 July 2014 | 30 June 2017 | 1 |
| Lysanne Gray | 1 April 2016 | 1 April 2016 | 31 March 2019 | 1 |

**Approval**
This report was approved by the Remuneration Committee and signed on its behalf by:

**Nigel Turner**
**Chairman of the Remuneration Committee**
7 September 2016

# Other Statutory Disclosures

## Directors
The Directors and the dates of their respective appointments are listed on pages 46 and 47.

## Equal Opportunities/Employees with Disabilities
Genus values diversity and aims to make best use of everyone's skills and abilities. We are therefore committed to equal opportunities at every stage of our employees' careers. Our policy on employees with disabilities is to fully and fairly consider people with disabilities for all vacancies. We interview and recruit people with disabilities and endeavour to retain employees if they become disabled while they work for us. Where possible, we will retrain employees who become disabled and adjust their working environment, so they can maximise their potential.

## Political Contributions
The Group does not make political contributions.

## Dividend
The Board is recommending to shareholders a final dividend of 14.7 pence per ordinary share, resulting in a total dividend for the year of 21.4 pence per ordinary share, an increase of 10% for the year. It is proposed that the final dividend will be paid on 2 December 2016 to shareholders on the register at the close of business on 18 November 2016.

## Capital Structure
Note 29 gives details of the Company's issued share capital and any movements in the issued share capital during the year. In accordance with the Company's current Articles of Association, the Company is restricted to issuing up to a maximum of 75,989,400 ordinary shares. Consistent with current company law and standard practice for listed companies, under the new Articles of Association proposed to be adopted at the 2016 AGM, this restriction would be removed and, if the new Articles are adopted, the Directors' powers to allot shares will be limited to the amount set out in the resolution proposed at the AGM, that is £4,073,315.80 (representing two-thirds of the Company's current issued share capital).

The Company has one class of ordinary share. All issued shares are fully paid and each share has the right to one vote at the Company's general meetings. There are no specific restrictions either on the size of a holding or on the transfer of shares, which are both governed by our Articles of Association and prevailing legislation. No person has any special rights of control over the Company's share capital.

Details of the Company's employee share schemes are set out in note 28. In connection with these schemes, the Genus plc Employee Benefit Trust holds shares in the Company from time to time and abstains from voting in respect of any such shares.

For additional information on capital risk management including financial instruments, see note 24.

## Authority to Acquire the Company's Own Shares
No shares were bought back by the Company, under the authority of the shareholders' resolutions of 19 November 2015, in the period since 20 November 2015 and up to the date of this report.

## Substantial Shareholdings
As at 1 September 2016, we were aware of the following material interests in the Company's ordinary shares:

| Fund manager | Shareholding | % |
|---|---|---|
| Landsdowne Partners | 5,988,888 | 9.82 |
| Baillie Gifford & Co | 4,437,236 | 7.27 |
| Columbia Threadneedle Investments | 3,298,406 | 5.41 |
| NFU Mutual Investment Mgrs | 2,935,122 | 4.81 |
| Allianz Global Investors | 2,378,251 | 3.90 |
| Legal & General Investment Mgt | 2,211,141 | 3.62 |
| Norges Bank Investment Mgt | 2,048,785 | 3.36 |
| M&G Investment Mgt | 1,901,531 | 3.12 |

There have been no material changes in shareholding since 30 June 2016.

No other person has notified an interest in the Company's ordinary shares, which is required to be disclosed to us.

## Going Concern and Long-Term Viability Statement
After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future and for a period of at least 12 months from the date of this report. Accordingly, the Directors continue to adopt and consider appropriate the going concern basis in preparing the Annual Report and Accounts.

During the year we agreed new five-year borrowing facilities on improved terms. At 30 June 2016 the Group had net debt of £89.7m (2015: £71.8m) and had substantial headroom of £49.8m under the renewed facilities of £169.7m, which run to February 2021. The Group's financial position remains strong.

In addition, in accordance with provision C.2.2 of the 2014 revision of the Code, the Directors have assessed the viability of the Group over a three-year period to June 2019. This period is deemed appropriate given the visibility the Company has to its product development pipeline, for example, as a result of the genetic lag of approximately three years between the porcine nucleus herds and customers' production systems. In addition, the nature of the principal risks and uncertainties affecting Genus including the agricultural markets in which it operates were taken into account in determining the three year period. The Directors have considered Genus's current financial position, its planned capital expenditure as well as the financing facilities available to the Group. They also assessed the potential impact, in severe but plausible scenarios, of the principal risks and uncertainties, set out on pages 18 to 19, and in particular the impacts of biosecurity, market down-turn, continuity of supply and the recent court case regarding our GSS technology. The assessment took into account the likely degree of effectiveness of current and available mitigating actions.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to June 2019.

## Provision of Information to the Company’s Auditor

Each of the Directors at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company’s auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 Companies Act 2006.

## Appointment of Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming AGM.

## Directors’ Indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

## Requirements of the Listing Rules

Details of the Company’s long-term incentive schemes can be found in the Directors’ Remuneration Report on pages 62 to 85.

Approved by the Board.

**Dan Hartley**
**Group General Counsel and Company Secretary**
7 September 2016

# Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

**Responsibility Statement**

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

**Karim Bitar**
**Chief Executive**
7 September 2016

**Stephen Wilson**
**Group Finance Director**
7 September 2016

# Independent Auditor's Report

## To the members of Genus plc



### Opinion on Financial Statements of Genus plc

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2016 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 Reduced Disclosure Framework; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Financial Statements comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 53. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101.

### Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the Financial Statements and the Directors' statement on the longer-term viability of the Group contained within the Directors' Report on page 86.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 88 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 18–19 that describe those risks and explain how they are being managed or mitigated;
- the Directors' Statement on page 88 that they considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements;
- the Directors' explanation on page 86 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

### Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The risks identified are the same risks as in the prior year except that the prior year report included one further risk related to accounting for acquisitions as there was a significant acquisition; no similar acquisitions were made in the current year.

The Audit Committee has requested that while not currently required under International Standards on Auditing (UK and Ireland), we include in our report any significant key observations in respect of these assessed risks of material misstatement.

# Independent Auditor's Report continued

## To the members of Genus plc

| Fair value of biological assets under IAS 41 *'Agriculture'* | |
|---|---|
| **Risk description** | The Group calculates the fair value of biological assets through the use of discounted cash flow models and recent transaction prices. As at 30 June 2016, the total fair value of biological assets is £331m.<br><br>The valuation models and related data inputs and assumptions require a number of management estimates as explained in note 15 to the Financial Statements. This is disclosed as a critical judgement and key source of estimation uncertainty in note 4.<br><br>For bovine asset valuations the key assumptions include: the future demand for semen (sales volume); estimated production volume, unit prices and marketable life for each bull; the discount rate applied to the future cash flows; and the percentage of bulls which are expected to be actively marketed.<br><br>For porcine asset valuations the key assumptions include: the percentage of production animals expected to be sold; the expected sales price; the expected useful life; and the discount rate applied to the future cash flows. In addition, for the pure line pigs, the number of future generations from which output is attributable to the current herd. |
| **How the scope of our audit responded to the risk** | Our response to this risk considers the separate elements of the fair value calculations: the basis for management's estimates and judgements applied in the key assumptions; the validity of transactional data used for other inputs; and the mechanical integrity of the models themselves.<br><br>For the bovine asset valuations, our audit work included obtaining an understanding of management's processes surrounding the compilation of the future demand, marketable life and production volume forecasts. We considered the appropriateness of projected prices, volume growth rates against historical trends and current performance, and analysed management's historical forecasting accuracy.<br><br>For the porcine asset valuations our audit work included consideration of the appropriateness of management's assessment of the number of future generations from which output is attributable to the current herd and expected useful lives. We tested the expected percentages of animals to be sold, retained and slaughtered as well as recent selling prices by reference to historical transactional data. For all other assumptions in each model we challenged the significant estimates with reference to third party or historical transactional data as appropriate.<br><br>For both species' valuation models, we used internal valuation experts in our testing of the discount rates applied to the cash flows.<br><br>We also tested the mechanical integrity of the spreadsheets used to calculate the fair values using analytical tools and performed sensitivity analyses on the key assumptions. |
| **Key observations** | We are satisfied that the assumptions and inputs used within the IAS 41 models prepared by management for bovine and porcine are appropriate. |

| Valuation of pension schemes and post-retirement benefits | |
|---|---|
| **Risk description** | The Group operates several defined benefit pension schemes, for which there is judgement in determining the net deficit valuation under IAS 19. At 30 June 2016, the net deficit is £44.5m and the aggregate scheme liabilities are £357m.<br><br>The valuation of the aggregate pension net deficit is based on a number of assumptions disclosed in note 27 such as the discount rate, inflation rate and life expectancy. This is disclosed as a critical judgement and key source of estimation uncertainty in note 4.<br><br>Genus is party to the Milk Pension Fund, a multi-employer pension scheme and is exposed to the risk of additional liabilities from the default of other scheme members beyond its current 75% share of the liabilities.<br><br>As part of the 2015 Triennial Valuation process, the trustees of the Milk Pension Fund changed the index used for pension and deferred pension increases from RPI to CPI. As a result a gain of £43.9m was recorded, as set out in note 27. Following this change the net present value of deficit repair contributions of £34.3m exceeds the IAS 19 valuation of the net liability of £19.4m, and thus an additional liability has been recorded under IFRIC 14. |

| Valuation of pension schemes and post-retirement benefits | |
|---|---|
| **How the scope of our audit responded to the risk** | In conjunction with our actuarial specialists, we have evaluated the appropriateness of management's methodology and assumptions used to value the defined benefit pension schemes, including the change from RPI to CPI, by benchmarking the assumptions to those used in the external market as at the same date.<br><br>In addition, we circularised the independent actuaries and investment managers responsible for managing the pension funds to provide supporting evidence for the source inputs into the pension valuations, including membership data.<br><br>In response to the risk of additional liabilities for the multi-employer scheme arising from other employers, we have considered the financial strength and stability of remaining employers in the scheme and their ability to contribute to the deficit through a review of the most recent publicly available financial information.<br><br>In respect of the judgement over the use of the revised Schedule of Contributions to calculate the additional minimum funding liability under IFRIC 14, we have reviewed the relevant correspondence between the Company, the employer group and the trustees. We have considered the deadline for the agreement of the Schedule of Contributions as set out in Code of Practice issued by The Pensions Regulator and the extent of the powers held by the Trustees to set the contribution rates for each employer. |
| **Key observations** | From the work performed above, we are satisfied that all assumptions applied in respect of the valuation of the scheme assets and liabilities are appropriate and that the fair value of the net deficit of the Milk Pension Fund is calculated appropriately. |

| Impairment of goodwill | |
|---|---|
| **Risk description** | The Group has £86.0m of goodwill on its balance sheet, as set out in note 14. There is a risk regarding potential impairment of the carrying value of goodwill arising from historical acquisitions.<br><br>In management's impairment assessment there are a number of key judgements used to determine the recoverable amount, including the identification of cash-generating units ('CGUs'), growth rates in future cash flow forecasts, the cost savings to be derived from the Genus Sexed Semen ('GSS') project and discount rates applied to these forecasts. |
| **How the scope of our audit responded to the risk** | We challenged the assumptions used by management in their annual impairment assessment by comparing the projected growth rates and forecast cash flows against historical trends achieved in the business in the wake of what has been challenging market conditions. We analysed historical budgeting accuracy to assess the reliability of management's forecasts. We reviewed third-party market data sources used by management in their forecast models.<br><br>We reviewed and challenged management's identification of CGUs and the level of CGU aggregation at which goodwill is allocated and monitored, which is consistent with last year.<br><br>We agreed the projected cost savings from the GSS project to detailed plans and forecasts and verified that the impact of the recent court ruling was included within management's assessment appropriately.<br><br>We evaluated management's assessment of the sensitivity of the Group's impairment assumptions to reasonably possible changes and considered the associated disclosures provided by the Group in relation to its impairment review within note 14.<br><br>We used valuation specialists within the audit team to challenge the discount rates applied to these cash flows by reference to market data, including the risk premium applied to each CGU. This involved benchmarking the rates against, for example, other companies operating in similar regions. |
| **Key observations** | We have assessed the impairment calculations on goodwill on each CGU and are satisfied that the assumptions applied within the models are appropriate. |

# Independent Auditor’s Report continued

## To the members of Genus plc

| Impairment of capitalised development costs | |
|---|---|
| **Risk description** | As set out in note 14 the Group capitalises development costs in relation to the Genus Sexed Semen project. The total capitalised to date is £17.8m.<br><br>There is a risk regarding potential impairment of development costs capitalised, including the impact of the recent court rulings in relation to the ongoing case with Sexing Technology, as well as whether the costs capitalised meet the criteria set out in IAS 38 *‘Intangible Assets’*.<br><br>Management assesses these costs for impairment by using a net present value model for the project. This model includes the following assumptions subject to judgement: the projected cash flows, growth rates and discount rates applied. |
| **How the scope of our audit responded to the risk** | We tested the development costs capitalised to assess whether they meet the criteria for capitalisation as set out in IAS 38 *‘Intangible Assets’*.<br><br>We reviewed management’s assessment of the carrying value of costs capitalised and challenged the assumptions applied to the total project with reference to Board-approved forecasts and historical growth rates. We reviewed the project specific risk premium added to the discount rate in conjunction with our valuation specialists. We discussed the progress of the project with project managers and discussed the impact of the related litigation with management and external legal advisors.<br><br>We also assessed whether the additional future costs to be incurred by the Company as a result of the recent court ruling have been correctly incorporated within the impairment assessment. |
| **Key observations** | We have assessed the impairment calculations for capitalised development costs and are satisfied that the assumptions applied within the models are appropriate. We are satisfied that the costs capitalised meet the criteria set out in IAS 38 *‘Intangible Assets’*. |

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 60–61.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Our application of materiality**

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £2.2m (2015: £2.3m), which is 5.3% (2015: 5.8%) of pre-tax profit before exceptional items and changes in fair value of biological assets, and below 1% (2015: 1%) of equity. We have used a profit-based measure given the Group is listed and therefore shareholders focus on profitability as adjusted for the exceptional items and changes in fair value of biological assets to avoid distortion that could otherwise arise due to non-recurring items and fair value movements.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1m (2015: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

Our audit work at the components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £1.1m to £1.7m (2015: £1.1m to £1.9m).

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at 22 components (2015: 20). Eleven of these were subject to a full audit (2015: twelve), whilst the remaining eleven (2015: eight) were subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. The change in number of components within scope reflects the impact of acquisitions and certain entities which are no longer significant to the Group following internal restructuring.

These 22 components represent the principal business units and account for 99% (2015: 85%) of the Group's net assets, 88% (2015: 78%) of the Group's revenue and 92% (2015: 86%) of the Group's profit before tax.

| | Full audit | Specified audit procedures | Total |
|---|---|---|---|
| Revenue | 74% | 13% | 87% |
| Profit before tax | 58% | 22% | 80% |
| Net assets | 85% | 14% | 99% |

They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

At the Parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team continued to follow a programme of planned visits. The lead audit partner visited the USA, UK, Mexico and Brazil components during the current and previous year. In years when we do not visit a significant component we include the component audit team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.

In 2016, the Group audit team held a global team briefing with all component audit teams to assess the risks facing the Group on an international scale and to plan the work to be performed.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

#### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

#### Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

# Independent Auditor’s Report continued

## To the members of Genus plc

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors’ statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### Respective responsibilities of Directors and auditor

As explained more fully in the Directors’ Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an 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 Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

### Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group’s and the Parent Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Andrew Bond, FCA (Senior Statutory Auditor)**
**for and on behalf of Deloitte LLP**
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
7 September 2016

# Group Income Statement
## For the year ended 30 June 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Revenue** | 5, 6 | **388.3** | 398.5 |
| **Adjusted operating profit** | 5 | **49.3** | 47.2 |
| **Adjusting items:** | | | |
| – Net IAS 41 valuation movement on biological assets | 15 | **(17.1)** | 24.9 |
| – Amortisation of acquired intangible assets | 14 | **(6.1)** | (6.1) |
| – Share-based payment expense | 28 | **(3.8)** | (1.4) |
| | | **(27.0)** | 17.4 |
| **Exceptional items:** | 7 | | |
| – Pension related | | **44.2** | 0.4 |
| – Litigation | | **(6.9)** | (2.8) |
| – Acquisition and integration | | **(0.2)** | (1.4) |
| – Other (including restructuring) | | **(0.8)** | (1.3) |
| | | **36.3** | (5.1) |
| **Total adjusting and exceptional items** | | **9.3** | 12.3 |
| **Operating profit** | 8 | **58.6** | 59.5 |
| Share of post-tax profit of joint ventures and associates retained | 17 | **6.9** | 2.9 |
| Finance costs | 10 | **(4.7)** | (4.8) |
| Finance income | 10 | **0.1** | 0.2 |
| **Profit before tax** | | **60.9** | 57.8 |
| Taxation | 11 | **(10.6)** | (17.3) |
| **Profit for the year from continuing operations** | | **50.3** | 40.5 |
| **Attributable to:** | | | |
| Owners of the Company | | **49.3** | 39.9 |
| Non-controlling interest | | **1.0** | 0.6 |
| | | **50.3** | 40.5 |
| **Earnings per share from continuing operations** | 12 | | |
| Basic earnings per share | | **81.1p** | 65.7p |
| Diluted earnings per share | | **80.3p** | 64.9p |
| **Non-statutory measure of profit** | | | |
| Adjusted operating profit from continuing operations | | **49.3** | 47.2 |
| Operating profit attributable to non-controlling interest | | **(1.4)** | (0.6) |
| Pre-tax share of profits from joint ventures and associates excluding net IAS 41 valuation movement | | **6.4** | 4.6 |
| **Adjusted operating profit including joint ventures and associates** | | **54.3** | 51.2 |
| Net finance costs | 10 | **(4.6)** | (4.6) |
| **Adjusted profit before tax from continuing operations** | | **49.7** | 46.6 |
| **Adjusted earnings per share from continuing operations** | 12 | | |
| Basic adjusted earnings per share | | **60.7p** | 56.8p |
| Diluted adjusted earnings per share | | **60.1p** | 56.1p |

# Group Statement of Comprehensive Income

## For the year ended 30 June 2016

| | Note | 2016 £m | 2016 £m | 2015 £m | 2015 £m |
|---|---|---|---|---|---|
| **Profit for the year** | | | **50.3** | | 40.5 |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| Foreign exchange translation differences | | **76.6** | | 14.5 | |
| Fair value movement on net investment hedges | | **(13.3)** | | (6.1) | |
| Fair value movement on cash flow hedges | | **(0.7)** | | – | |
| Tax relating to components of other comprehensive income | 11 | **(16.8)** | | (6.7) | |
| | | | **45.8** | | 1.7 |
| Items that may not be reclassified subsequently to profit or loss | | | | | |
| Actuarial loss on retirement benefit obligations | | **(12.8)** | | (7.3) | |
| Movement on pension asset recognition restriction | | **(0.6)** | | (1.2) | |
| Recognition of additional pension liability | | **(14.9)** | | – | |
| Tax relating to components of other comprehensive income | 11 | **4.5** | | 1.6 | |
| | | | **(23.8)** | | (6.9) |
| **Other comprehensive income/(expense) for the year** | | | **22.0** | | (5.2) |
| **Total comprehensive income for the year** | | | **72.3** | | 35.3 |
| **Attributable to:** | | | | | |
| Owners of the Company | | | **72.1** | | 35.0 |
| Non-controlling interest | | | **0.2** | | 0.3 |
| | | | **72.3** | | 35.3 |

# Group Statement of Changes in Equity

| | Note | Called up share capital £m | Share premium account £m | Own shares £m | Translation reserve £m | Hedging reserve £m | Retained earnings £m | Total £m | Non-controlling interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 30 June 2014** | | 6.1 | 112.2 | (0.1) | (12.1) | – | 178.6 | 284.7 | 0.6 | 285.3 |
| Foreign exchange translation differences, net of tax | | – | – | – | 6.8 | – | – | 6.8 | (0.3) | 6.5 |
| Fair value movement on net investment hedges, net of tax | | – | – | – | (4.8) | – | – | (4.8) | – | (4.8) |
| Actuarial loss on retirement benefit obligations, net of tax | | – | – | – | – | – | (5.9) | (5.9) | – | (5.9) |
| Movement on pension asset recognition restriction, net of tax | | – | – | – | – | – | (1.0) | (1.0) | – | (1.0) |
| Other comprehensive (expense)/income for the year | | – | – | – | 2.0 | – | (6.9) | (4.9) | (0.3) | (5.2) |
| Profit for the year | | – | – | – | – | – | 39.9 | 39.9 | 0.6 | 40.5 |
| Total comprehensive income for the year | | – | – | – | 2.0 | – | 33.0 | 35.0 | 0.3 | 35.3 |
| Recognition of share-based payments, net of tax | | – | – | – | – | – | 2.2 | 2.2 | – | 2.2 |
| Adjustment arising from change in non-controlling interest and written put option | | – | – | – | – | – | – | – | (6.6) | (6.6) |
| Dividends | 13 | – | – | – | – | – | (11.1) | (11.1) | – | (11.1) |
| **Balance at 30 June 2015** | | 6.1 | 112.2 | (0.1) | (10.1) | – | 202.7 | 310.8 | (5.7) | 305.1 |
| Foreign exchange translation differences, net of tax | | – | – | – | 58.2 | – | – | 58.2 | (1.2) | 57.0 |
| Fair value movement on net investment hedges, net of tax | | – | – | – | (10.6) | – | – | (10.6) | – | (10.6) |
| Fair value movement on cash flow hedges, net of tax | | – | – | – | – | (0.6) | – | (0.6) | – | (0.6) |
| Actuarial loss on retirement benefit obligations, net of tax | | – | – | – | – | – | (11.0) | (11.0) | – | (11.0) |
| Movement on pension asset recognition restriction, net of tax | | – | – | – | – | – | (0.6) | (0.6) | – | (0.6) |
| Recognition of additional pension liability, net of tax | | – | – | – | – | – | (12.2) | (12.2) | – | (12.2) |
| Other comprehensive income/(expense) for the year | | – | – | – | 47.6 | (0.6) | (23.8) | 23.2 | (1.2) | 22.0 |
| Profit for the year | | – | – | – | – | – | 49.3 | 49.3 | 1.0 | 50.3 |
| Total comprehensive income/(expense) for the year | | – | – | – | 47.6 | (0.6) | 25.5 | 72.5 | (0.2) | 72.3 |
| Recognition of share-based payments, net of tax | | – | – | – | – | – | 3.3 | 3.3 | – | 3.3 |
| Adjustment arising from change in non-controlling interest | | – | – | – | – | – | – | – | (0.5) | (0.5) |
| Dividends | 13 | – | – | – | – | – | (12.2) | (12.2) | – | (12.2) |
| Issue of ordinary shares | | – | 0.1 | – | – | – | – | 0.1 | – | 0.1 |
| **Balance at 30 June 2016** | | **6.1** | **112.3** | **(0.1)** | **37.5** | **(0.6)** | **219.3** | **374.5** | **(6.4)** | **368.1** |

# Group Balance Sheet
## As at 30 June 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | 14 | **86.0** | 73.9 |
| Other intangible assets | 14 | **78.0** | 69.8 |
| Biological assets | 15 | **264.6** | 242.7 |
| Property, plant and equipment | 16 | **61.8** | 50.3 |
| Interests in joint ventures and associates | 17 | **24.3** | 19.6 |
| Other investments | 18 | **3.6** | 0.2 |
| Deferred tax assets | 11 | **4.7** | 7.8 |
| **Total non-current assets** | | **523.0** | 464.3 |
| Inventories | 19 | **35.7** | 32.2 |
| Biological assets | 15 | **66.4** | 50.2 |
| Trade and other receivables | 20 | **78.1** | 74.7 |
| Cash and cash equivalents | 21 | **34.0** | 21.3 |
| Income tax receivable | | **1.0** | 0.4 |
| Derivative financial asset | 24 | **0.6** | 0.7 |
| Asset held for sale | | **0.3** | 0.5 |
| **Total current assets** | | **216.1** | 180.0 |
| **Total assets** | | **739.1** | 644.3 |
| **Liabilities** | | | |
| Trade and other payables | 22 | **(65.1)** | (58.9) |
| Interest-bearing loans and borrowings | 25 | **(4.6)** | (12.2) |
| Provisions | 23 | **(1.2)** | (2.4) |
| Obligations under finance leases | 26 | **(1.1)** | (1.1) |
| Current tax liabilities | | **(4.9)** | (6.3) |
| Derivative financial liabilities | 24 | **(0.5)** | (0.2) |
| **Total current liabilities** | | **(77.4)** | (81.1) |
| Interest-bearing loans and borrowings | 25 | **(115.3)** | (77.4) |
| Retirement benefit obligations | 27 | **(44.5)** | (63.1) |
| Deferred tax liabilities | 11 | **(118.5)** | (105.2) |
| Derivative financial liabilities | 24 | **(12.6)** | (10.0) |
| Obligations under finance leases | 26 | **(2.7)** | (2.4) |
| **Total non-current liabilities** | | **(293.6)** | (258.1) |
| **Total liabilities** | | **(371.0)** | (339.2) |
| **Net assets** | | **368.1** | 305.1 |
| **Equity** | | | |
| Called up share capital | 29 | **6.1** | 6.1 |
| Share premium account | | **112.3** | 112.2 |
| Own shares | 29 | **(0.1)** | (0.1) |
| Translation reserve | 29 | **37.5** | (10.1) |
| Hedging reserve | 29 | **(0.6)** | – |
| Retained earnings | | **219.3** | 202.7 |
| **Equity attributable to owners of the Company** | | **374.5** | 310.8 |
| Non-controlling interest | | **5.0** | 4.3 |
| Put option over non-controlling interest | 24 | **(11.4)** | (10.0) |
| **Total non-controlling interest** | | **(6.4)** | (5.7) |
| **Total equity** | | **368.1** | 305.1 |

The Financial Statements were approved and authorised for issue by the Board of Directors on 7 September 2016.

Signed on behalf of the Board of Directors

**Karim Bitar**
**Chief Executive**

**Stephen Wilson**
**Group Finance Director**

# Group Statement of Cash Flows

## For the year ended 30 June 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Net cash flow from operating activities** | 30 | **30.0** | 34.8 |
| **Cash flows from investing activities** | | | |
| Dividends received from joint ventures and associates | | **2.4** | 2.3 |
| Joint venture loan repayment | | **1.0** | – |
| Acquisition of subsidiaries, net of cash acquired | 36 | **(3.5)** | (8.8) |
| Acquisition of investment | 18 | **(3.5)** | – |
| Acquisition of investment in joint venture | 17 | **(0.2)** | (0.8) |
| Disposal of subsidiary, net of cash disposed | | **0.1** | – |
| Purchase of property, plant and equipment | | **(11.8)** | (12.0) |
| Purchase of intangible assets | | **(6.8)** | (2.8) |
| Proceeds from sale of property, plant and equipment | | **1.8** | 0.3 |
| Proceeds from sale of assets held for sale | | **0.7** | – |
| **Net cash outflow from investing activities** | | **(19.8)** | (21.8) |
| **Cash flows from financing activities** | | | |
| Drawdown of borrowings | | **53.6** | 51.8 |
| Repayment of borrowings | | **(37.3)** | (53.0) |
| Payment of finance lease liabilities | | **(1.9)** | (1.5) |
| Equity dividends paid | | **(12.2)** | (11.1) |
| Dividend to non-controlling interest | | **(0.4)** | – |
| Issue of ordinary shares | | **0.1** | – |
| Debt issue costs | | **(1.4)** | – |
| **Net cash inflow/(outflow) from financing activities** | | **0.5** | (13.8) |
| **Net increase/(decrease) in cash and cash equivalents** | | **10.7** | (0.8) |
| Cash and cash equivalents at start of the year | | **21.3** | 22.8 |
| Net increase/(decrease) in cash and cash equivalents | | **10.7** | (0.8) |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **2.0** | (0.7) |
| **Total cash and cash equivalents at 30 June** | 21 | **34.0** | 21.3 |

# Notes to the Group Financial Statements

## For the year ended 30 June 2016

### 1. Reporting entity

Genus plc (the 'Company') is a company incorporated in the United Kingdom under the Companies Act 2006. Its registered office is Matrix House, Basing View, Basingstoke, Hampshire RG21 4DZ. The Group Financial Statements for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the 'Group'). We have used the equity method to account for the Group's interests in joint ventures and associates. Genus at a Glance on pages 2 and 3 explains the Group's operations and principal activities.

### 2. Basis of preparation

We have prepared the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and therefore comply with Article 4 of the IAS Regulation.

Unless otherwise stated, we have consistently applied the significant accounting policies set out below to all periods presented in these Group Financial Statements.

The going concern statement has been included in the Directors' Report on page 86 and forms part of these statements.

In the Group Statement of Comprehensive Income, we have separated the disclosure of certain pension related items comparative amounts to conform to the current year's presentation and to increase clarity. In the Group Statement of Cash Flows we have included the cash acquired on acquisition within investing activities in the comparative period. In note 5 we have reclassified certain assets in the comparative period, in note 6 we have reallocated porcine semen sales from 'Sale of animals, semen, embryos and associated products and services' to 'Royalties – animal and semen' to conform to the current year's presentation and to increase clarity, in note 9 we have restated comparative amounts to incorporate casual employees to conform with the current period definition, in note 16 we have with separated out construction in progress comparative amounts and in note 24 operating profit sensitivity has been restated to be consistent with current year assumptions.

**Functional and presentation currency**

We present the Group Financial Statements in Sterling, which is the Company's functional and presentational currency. All financial information presented in Sterling has been rounded to the nearest £0.1m.

**Use of estimates**

Preparing financial statements requires management to make judgements, estimates and assumptions that affect our application of accounting policies and our reported assets, liabilities, income and expenses. Our actual results may differ from these estimates. We review our estimates and underlying assumptions on an ongoing basis, and recognise revisions to accounting estimates in the period in which we revise the estimate and in any future periods affected.

Note 4 provides information about significant areas of estimation uncertainty and the critical judgements we made in applying accounting policies that have the most effect on the amounts we recognised in the financial statements.

**Non-GAAP measures – adjusted operating profit, adjusted profit before tax and adjusted earnings per share**

Adjusted operating profit, adjusted profit before tax from continuing operations and adjusted earnings per share exclude the net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, share-based payment expense, exceptional items and other gains and losses.

We believe these non-GAAP measures provide shareholders with useful information about the Group's trading performance. The reconciliation between operating profit from continuing operations and adjusted operating profit from continuing operations is shown on the face of the Group Income Statement.

### 3. Significant accounting policies applied in the current reporting period that relate to the Financial Statements as a whole

This section sets out our significant accounting policies that relate to the Financial Statements as a whole. Where an accounting policy is generally applicable to a specific note to the Financial Statement, the policy has been described in that note. We have also detailed below the new accounting pronouncements that we will adopt in future years and our current view of the impact they will have on our financial reporting.

**Accounting convention**

We prepare the Group Financial Statements under the historical cost convention, except for our biological assets and derivative financial instruments. In accordance with IFRS, we measure: biological assets at fair value less point-of-sale costs, which represent the costs of distribution and selling expenses; share-based payment expense; pension liabilities; and certain financial instruments at fair value.

**Basis of consolidation**

Subsidiaries are entities the Group controls. We have control when we have the power to govern the entity's financial and operating policies, so benefitting from its activities. In assessing control, we take into account potential voting rights that we can currently exercise or convert. We fully consolidate the results of subsidiaries we acquire from the date that control transfers to the Group. We cease consolidating the results of subsidiaries we cease to control from the date that control passes.

In preparing the Group Financial Statements, we eliminate intra-Group balances and any unrealised income and expenses arising from intra-Group transactions. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment, to the extent of our interest in the investee. We eliminate unrealised losses in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## 3. Significant accounting policies applied in the current reporting period that relate to the Financial Statements as a whole continued

### Foreign currencies

We record foreign currency transactions in the relevant Group entity's functional currency, at the exchange rate on the transaction date. At each balance sheet date, we retranslate monetary assets and liabilities denominated in foreign currencies at the exchange rate on the balance sheet date. We recognise the foreign exchange differences arising on retranslation in the Group Income Statement.

When non-monetary assets and liabilities are measured at historical cost in a foreign currency, we translate them at the exchange rate at the transaction date. When non-monetary assets and liabilities are stated at fair value in a foreign currency, we translate them at the prevailing exchange rate on the date we determined the fair value.

The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated into Sterling at the prevailing exchange rates at the balance sheet date. We translate these operations' revenues and expenses using an average rate for the period.

When exchange differences arise from translating foreign operations into Sterling, or from the fair value movement of related effective hedges, we take them to the foreign currency translation reserve. When we dispose of a foreign operation, we release these differences to the income statement. Exchange movements on inter-Company loans designated as long-term funding are taken to the foreign currency translation reserve, together with any related taxation.

The principal exchange rates were as follows:

| | Average | | | Closing | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | **2016** | 2015 | 2014 |
| US Dollar/£ | **1.47** | 1.57 | 1.64 | **1.34** | 1.57 | 1.71 |
| Euro/£ | **1.33** | 1.32 | 1.20 | **1.20** | 1.41 | 1.25 |
| Brazilian Real/£ | **5.47** | 4.26 | 3.75 | **4.28** | 4.89 | 3.77 |
| Mexican Peso/£ | **25.38** | 22.68 | 21.44 | **24.66** | 24.68 | 22.18 |

### Revenue

Revenue is the value of sales and royalties receivable from customers, net of trade discounts and value added tax.

The principal components of the Group's revenue and their respective accounting treatments are:

- Revenue from the sale of bovine and porcine semen, porcine breeding animals, embryos and ancillary products, which we recognise when risks and rewards transfer to the customer or distributor. This is either when we ship to customers or on delivery, depending on the terms of sale.
- We recognise royalties when receivable. We receive royalty payments from certain porcine customers based on key performance variables, such as the number of pigs born per litter, the number of litters born per sow and the average slaughter weight of the animals born. This amount is confirmed directly to Genus by the customer.
- Revenue from consulting and other services, which represent the amounts we charged for services we provided during the year, including recoverable expenses but excluding value added tax. We recognise services provided but not yet billed as revenue, based on a fair value assessment of the work we have delivered and our contractual right to receive payment. Where unbilled revenue is contingent on a future event, we do not recognise any revenue until the event occurs.
- Revenue from the slaughter of porcine animals is recognised when the risks and rewards transfer to the slaughterhouse.

### Research and development

We undertake research with the aim of gaining new scientific or technical knowledge, and recognise this expenditure in the income statement as we incur it.

The Group constantly monitors its research activities. When research projects achieve technical feasibility and are commercially viable, our policy is to capitalise further development costs within intangible assets in accordance with IAS 38.

Our development activities include developing and maintaining our porcine genetic nucleus herd and our bovine pre-stud herds. We do not capitalise development expenditure separately for these herds, as their fair value is included in the fair value of the Group's biological assets, in accordance with IAS 41.

We disclose the costs of research and herd development activities, as required by IAS 38.

### New standards and interpretations

No new standards and interpretations have been adopted in the current period.

# Notes to the Group Financial Statements continued

For the year ended 30 June 2016

## 3. Significant accounting policies applied in the current reporting period that relate to the Financial Statements as a whole continued

**New standards and interpretations not yet adopted**

At the date of authorisation of these Group Financial Statements, the following standards and interpretations which have not been applied in preparing these Group Financial Statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IFRS 11 *'Accounting for Acquisitions of Interests in Joint Operations'*, IAS 27 *'Equity Method in Separate Financial Statements'*, IAS 1 *'Disclosure Initiative'*, IAS 12 *'Recognition of Deferred Tax Assets for Unrealised Losses'*;
- Amendments to IFRS 10, IFRS 12 and IAS 28 *'Investment Entities: Applying the Consolidation Exception'*;
- Amendments to IAS 16 and IAS 38 *'Clarification of Acceptable Methods of Depreciation and Amortisation'*;
- *'Annual Improvements to IFRSs 2012 – 2014 Cycle'*;
- IFRS 9 *'Financial Instruments'*;
- IFRS 14 *'Regulatory Deferral Accounts'*;
- IFRS 15 *'Revenue from Contracts with Customers'*; and
- IFRS 16 *'Leases'*.

The Group is currently assessing the impact of the new pronouncements on its results, financial position and cash flows. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

## 4. Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, which are described in note 3 or in the specific note the policy relates to, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements and key sources of estimation uncertainty**

### Determination of the fair value of biological assets (note 15)

Determining the fair values of our bovine and porcine biological assets requires significant judgement and assumptions.

Bovine: The key judgements are in respect of the forecast sales volumes, the expected unit prices, the animals' useful lifespan and the discount rate we apply.

Porcine: The key judgements and assumptions are in respect of the animals' useful lifespan, the proportion that go to slaughter, the mix of boars and gilts and, in the case of the animals in the pure line herds, the number of future generations attributable to the current herds, the fair value prices achieved on sales, the animals' expected useful lifespan and productivity, and the discount rate we apply.

### Defined benefit pension schemes (note 27)

Amounts recorded in the Financial Statements in respect of defined benefit pension schemes are also based on significant estimates. Judgements required included the extent to which we should provide for any amounts that might become payable under our joint and several liability in respect of the Milk Pension Fund, and the extent of additional liability required under IFRIC 14.

### Impairment of goodwill, intangible and tangible assets (note 14)

Determining whether goodwill, intangible and tangible assets are impaired requires us to consider any specific impairment indicators and to estimate the value in use of the cash-generating units to which we have allocated goodwill, intangible and tangible assets. The value in use calculation requires us to estimate the future cash flows arising from the cash-generating unit and the appropriate discount rate, in order to calculate present value.

## 5. Segmental information

IFRS 8 *'Operating Segments'* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executive and the Board to allocate resources to the segments and to assess their performance. For management purposes, the Group's operating and reporting structure comprises four operating segments; Genus PIC, Genus ABS, Genus Asia and Research & Development. These segments are the basis on which the Group reports its segmental information. The principal activities of each segment are as follows:

Genus PIC – our global porcine sales business excluding Asia

Genus ABS – our global bovine sales business excluding Asia

Genus Asia – our porcine and bovine business in Asia

Research and Development – our global spend on research and development

## 5. Segmental information continued

A segment analysis of revenue, operating profit, depreciation, amortisation and non-current asset additions and segment assets and liabilities are detailed below. We do not include our adjusting items in the segments as we believe these do not reflect the underlying progress of the segments. The accounting policies of the reportable segments are the same as the Group's accounting policies as described in the Financial Statements.

### Revenue

| | 2016 £m | 2015 £m |
|---|---|---|
| Genus PIC | 176.5 | 175.5 |
| Genus ABS | 158.7 | 167.8 |
| Genus Asia | 45.1 | 41.4 |
| Research and Development | | |
| Research | – | – |
| Porcine Product Development | 8.0 | 13.8 |
| Bovine Product Development | – | – |
| | 8.0 | 13.8 |
| | 388.3 | 398.5 |

Operating profit by segment is set out below and reconciled to the Group's adjusted operating profit. A reconciliation of adjusted operating profit to profit for the year is shown on the Group Income Statement.

### Operating profit

| | 2016 £m | 2015 £m |
|---|---|---|
| Genus PIC | 64.2 | 57.2 |
| Genus ABS | 19.5 | 24.0 |
| Genus Asia | 11.3 | 5.7 |
| Research and Development | | |
| Research | (8.0) | (4.6) |
| Porcine Product Development | (13.5) | (11.6) |
| Bovine Product Development | (12.9) | (12.4) |
| | (34.4) | (28.6) |
| **Segment operating profit** | 60.6 | 58.3 |
| Central | (11.3) | (11.1) |
| **Adjusted operating profit** | 49.3 | 47.2 |

Our business is not highly seasonal and our customer base is diversified, with no individual customer generating more than 2% of revenue.

### Other segment information

| | Depreciation | | Amortisation | | Additions to non-current assets | |
|---|---|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Genus PIC | 0.6 | 0.5 | 5.9 | 6.1 | 1.1 | 0.5 |
| Genus ABS | 1.6 | 1.5 | 1.0 | 0.6 | 2.5 | 1.8 |
| Genus Asia | 0.3 | 0.5 | 0.1 | – | 0.4 | 0.4 |
| Research and Development | | | | | | |
| Research | – | 0.1 | – | – | 3.6 | 5.2 |
| Porcine Product Development | 1.8 | 1.9 | – | – | 1.7 | 0.6 |
| Bovine Product Development | 1.4 | 0.2 | – | – | 7.3 | 5.2 |
| | 3.2 | 2.2 | – | – | 12.6 | 11.0 |
| **Segment total** | 5.7 | 4.7 | 7.0 | 6.7 | 16.6 | 13.7 |
| Central | 2.2 | 1.6 | – | – | 4.3 | 3.3 |
| **Total** | 7.9 | 6.3 | 7.0 | 6.7 | 20.9 | 17.0 |

# Notes to the Group Financial Statements continued

For the year ended 30 June 2016

### 5. Segmental information continued

| | Segment assets | | Segment liabilities | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Genus PIC | **211.6** | 194.9 | **(45.9)** | (45.5) |
| Genus ABS | **124.2** | 112.3 | **(43.7)** | (39.9) |
| Genus Asia | **42.1** | 37.0 | **(8.4)** | (7.6) |
| Research and Development | | | | |
| Research | **3.7** | 6.0 | **(0.4)** | (0.1) |
| Porcine Product Development | **146.7** | 110.0 | **(59.6)** | (47.6) |
| Bovine Product Development | **203.1** | 178.9 | **(51.2)** | (52.2) |
| | **353.5** | 294.9 | **(111.2)** | (99.9) |
| **Segment total** | **731.4** | 639.1 | **(209.2)** | (192.9) |
| Central | **7.7** | 5.2 | **(161.8)** | (146.3) |
| **Total** | **739.1** | 644.3 | **(371.0)** | (339.2) |

Exceptional items of £36.3m credit (2015: £5.1m expense) relate to Genus ABS (£8.0m expense) and our central segment (£44.3m credit). Note 7 provides details of these exceptional items.

We consider share-based payment expenses on a Group-wide basis and do not allocate them to reportable segments.

**Geographical information**
The analysis of revenue by geographical area is stated on the basis of where the legal entity is incorporated and therefore in the country the revenue will be reported. The Group's revenue by geographical segment is analysed below:

#### Revenue

| | 2016 £m | 2015 £m |
|---|---|---|
| North America | **178.7** | 181.2 |
| Latin America | **58.6** | 59.0 |
| Europe, Middle East and Africa | **105.9** | 116.9 |
| Asia | **45.1** | 41.4 |
| | **388.3** | 398.5 |

#### Non-current assets (excluding deferred taxation and financial instruments)

| | 2016 £m | 2015 £m |
|---|---|---|
| North America | **347.5** | 306.3 |
| Latin America | **56.3** | 51.2 |
| Europe, Middle East and Africa | **98.2** | 85.0 |
| Asia | **16.3** | 14.0 |
| | **518.3** | 456.5 |

### 6. Revenue

| | 2016 £m | 2015 £m |
|---|---|---|
| Sale of animals, semen, embryos and associated products and services | **283.5** | 307.9 |
| Royalties – animal and semen | **97.8** | 83.6 |
| Consulting services | **7.0** | 7.0 |
| | **388.3** | 398.5 |
| Interest income (see note 10) | **0.1** | 0.2 |
| | **388.4** | 398.7 |

## 7. Exceptional items

The Group presents items as exceptional when the Directors believe them to be exceptional because of their size or incidence. The tax impact of the exceptional items is disclosed in note 11.

| | 2016 £m | 2015 £m |
|---|---|---|
| **Operating income/(expense):** | | |
| Pension related | **44.2** | 0.4 |
| Litigation | **(6.9)** | (2.8) |
| Acquisition and integration | **(0.2)** | (1.4) |
| Other (including restructuring) | **(0.8)** | (1.3) |
| | **36.3** | (5.1) |

**Pension related**

During the year, a gain of £43.9m arose as a result of changing the index used for pensions and deferred pension increases in the Milk Pension Fund from RPI to CPI, and a £0.3m settlement gain arose from members leaving the same scheme. See note 27.

**Litigation**

Litigation includes legal fees of £5.4m (2015: £2.8m) related to the action by ABS Global, Inc. ('ABS') against Inguran, LLC (aka Sexing Technologies ('ST')) and £1.5m (US$2m) for up-front damages related to patent infringement and confidential information.

On 14 July 2014, ABS, a wholly owned subsidiary of the Company, launched a legal action against ST, in the US District Court for the Western District of Wisconsin alleging, among other matters, that ST: (i) has a monopoly in the processing of sexed bovine semen in the US; and (ii) unlawfully maintains this monopoly through anticompetitive contractual provisions and the repeated acquisition of exclusive patent rights related to semen processing. The legal action aimed to remove these barriers and allow free and fair competition in the sexed bovine semen processing market ('ABS Action'). On the same date, ABS also filed an Inter-Partes Review application ('IPR') challenging the validity of one of ST's group patents, US Patent No. 7,195,920 (the ''920 patent') before the US Patent Office. Subsequently, ABS also filed IPRs challenging the validity of ST's group patents US Patent No. 7,820,425 (the ''425 patent'), US Patent No. 8,206,987 (the ''987 patent') and US Patent No. 8,198,092 (the ''092 patent').

ST and its subsidiary XY Inc. filed an Answer and Counterclaim to the ABS Action, denying any anticompetitive activities, and alleging, among other matters that: (i) ABS fraudulently induced ST to enter into the parties' semen sorting agreement; (ii) that the Company and ABS repudiated and breached the agreement; and (iii) that the Company and ABS have infringed the '920, '425, '987 and '092 patents.

On 29 April 2015, the Patent Trial and Appeal Board ('PTAB') ruled that ABS had not demonstrated a reasonable likelihood of prevailing on its assertion that relevant claims of the '987 patent were invalid and declined to order the institution of a trial. On 11 January and 15 April 2016, the PTAB ruled that the '920 and '425 patents were unpatentable. ST has appealed these decisions. The parties await a decision of the PTAB on whether a hearing will be instituted on the validity of the '092 patent.

On 21 July 2016, the Court issued its Summary Judgment decision which, among other things, confirmed that ST's fraudulent inducement claim failed as a matter of law.

On 1 August 2016, the litigation commenced in the US District Court for the Western District of Wisconsin. On 10 August 2016, the jury determined that the Company and ABS had proved that ST had wilfully maintained monopoly power in the market for sexed bovine semen processing in the US since July 2012, but had not proved that they had suffered injury to date as a result. On 11 August 2016, the jury also determined that (i) ST's '987 and '092 patents were valid and infringed and (ii) that ABS had materially breached the confidentiality obligations under the 2012 semen sorting agreement between the parties. On 12 August 2016, the jury determined that (i) the Company and ABS should pay ST an up-front payment of US$750,000 and an ongoing royalty of US$1.25 per straw on commercialisation of the Genus Sexed Semen technology for the use of ST's '987 patent; (ii) the Company and ABS should pay ST an up-front payment of US$500,000 and an ongoing royalty of US$0.50 per straw for the use of ST's '092 patent; and (iii) ABS had materially breached the confidentiality obligations under the 2012 semen sorting agreement between the parties and damages were determined to be US$750,000.

In response to the verdicts reached the Company and ABS has sought an injunction from the Court to allow, among other things, ABS to terminate the 2012 semen sorting agreement and to provide relief from the restrictive provisions under that agreement. The parties have also commenced the Court briefing on post-trial motions. The Company and ABS has sought, among other things, judgment as a matter of law that the '987 patent is invalid and that the '092 patent is not infringed, or alternatively a new trial on the patent claims. The Group plans to commercialise its sexed semen technology in the US and globally and introduce competition into the market.

**Acquisitions and integration**

During the year, £0.2m of expenses were incurred in relation to acquisition and integration, principally £0.1m in relation to In Vitro Brasil S.A. and £0.1m for St Jacobs Animal Breeding Corp. See note 36.

**Other (including restructuring)**

Included within 'other' is a £1.4m provision for prior year receivables from Venezuelan customers due to government restrictions on foreign exchange and a £0.8m provision for restructuring the European ABS business, partially offset by income of £1.4m from an historical insurance reclaim.

# Notes to the Group Financial Statements continued

For the year ended 30 June 2016

## 8. Operating profit

Operating costs comprise:

| | 2016 £m | 2015 £m |
|---|---|---|
| Cost of sales excluding net IAS 41 valuation movement on biological assets and amortisation of multiplier contract intangible assets | (157.6) | (177.4) |
| Net IAS 41 valuation movement on biological assets | (17.1) | 24.9 |
| Amortisation of multiplier contract intangible assets | (0.2) | (0.2) |
| **Cost of goods sold** | **(174.9)** | (152.7) |
| Other cost of sales | (81.0) | (84.1) |
| Amortisation of customer relationship intangible assets | (3.6) | (3.6) |
| **Other cost of sales** | **(84.6)** | (87.7) |
| Research and Development expenditure | (34.4) | (28.6) |
| Amortisation of technology intangible assets | (2.3) | (2.3) |
| **Research and Development costs** | **(36.7)** | (30.9) |
| Administrative expenses | (65.1) | (60.6) |
| Share-based payment expense | (3.8) | (1.4) |
| Amortisation of software, licences and patents | (0.9) | (0.6) |
| Exceptional items within administrative expenses | 36.3 | (5.1) |
| **Total administrative expenses** | **(33.5)** | (67.7) |
| **Total operating costs** | **(329.7)** | (339.0) |

Profit for the year is stated after charging/(crediting):

| | 2016 £m | 2015 £m |
|---|---|---|
| Net foreign exchange losses | 0.5 | – |
| Depreciation of owned fixed assets | 6.4 | 5.1 |
| Depreciation of assets held under finance leases and hire purchase contracts | 1.5 | 1.2 |
| (Profit)/loss on disposal of fixed assets | (0.2) | 0.4 |
| Profit on sale of asset held for sale | (0.2) | – |
| Impairment on asset held for sale | – | 0.3 |
| Operating lease rentals | | |
| – plant and machinery | 4.0 | 3.5 |
| – other | 3.4 | 5.6 |
| Employee costs (see note 9) | 118.4 | 109.1 |
| Cost of inventories recognised as an expense | 76.9 | 86.8 |

Auditor's remuneration is as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Fees payable to the Company's auditor and their associates for the audit of the Company's Annual Report and Financial Statements | 0.1 | 0.1 |
| Fees payable to the Company's auditor and their associates for other services to the Group | | |
| – The audit of the Company's undertakings | 0.5 | 0.5 |
| **Total audit fees** | **0.6** | 0.6 |
| Tax compliance services | 0.2 | 0.1 |
| Other services | – | 0.2 |
| **Total non-audit fees** | **0.2** | 0.3 |
| **Total fees to the Group's auditor** | **0.8** | 0.9 |
| **Fees payable to other auditors of Group companies** | **–** | – |

Non-audit tax services principally comprise tax compliance support services. These services fall within the non-audit services policy approved by the Company's Audit Committee.

## 9. Employee costs

This note shows the total employment costs and the average number of people employed by segment during the year.

Employee costs, including Directors' remuneration amounted to:

| | 2016 £m | 2015 £m |
|---|---|---|
| Wages and salaries (including bonuses and sales commission) | **102.8** | 97.3 |
| Social security costs | **10.0** | 8.3 |
| Contributions to defined contribution pension plans | **2.2** | 2.1 |
| Share-based payment expense (excluding National Insurance) | **3.4** | 1.4 |
| | **118.4** | 109.1 |

The number of full-time equivalent employees, including Executive Directors, was as follows:

| | Year end | | Average monthly | |
|---|---|---|---|---|
| | 2016 Number | 2015 Number | 2016 Number | 2015 Number |
| Genus PIC | **495** | 520 | **498** | 519 |
| Genus ABS | **1,517** | 1,522 | **1,521** | 1,390 |
| Genus Asia | **291** | 328 | **306** | 341 |
| Research and Development | **136** | 125 | **137** | 122 |
| Central | **62** | 54 | **56** | 53 |
| | **2,501** | 2,549 | **2,518** | 2,425 |
| Included in the totals above: | | | | |
| UK | **705** | 753 | **729** | 745 |

The Directors' Remuneration Report sets out details of the Directors' remuneration, pensions and share options.

Included within Genus ABS are 163 average monthly full-time equivalent employees who joined through the IVB acquisition which was completed in the prior year.

## 10. Net finance costs

Net finance costs mainly arise from interest due on bank loans, pension scheme liabilities and the results of hedging transactions used to manage foreign exchange and interest rate movements.

**Accounting policy**

We recognise interest income and interest payable in the income statement as they accrue.

| | 2016 £m | 2015 £m |
|---|---|---|
| Interest payable on bank loans and overdrafts | **(1.7)** | (1.8) |
| Amortisation of debt issue costs | **(0.5)** | (0.4) |
| Other interest payable | **(0.1)** | (0.1) |
| Net interest cost in respect of pension scheme liabilities | **(2.2)** | (2.3) |
| Net interest cost on derivative financial instruments | **(0.2)** | (0.2) |
| **Total interest expense** | **(4.7)** | (4.8) |
| Interest income on bank deposits | **0.1** | 0.2 |
| **Total interest income** | **0.1** | 0.2 |
| **Net finance costs** | **(4.6)** | (4.6) |

## 11. Taxation and deferred taxation

This note explains how our Group tax charge arises. The deferred tax section of the note also provides information on our expected future tax charges and sets out the tax assets and liabilities held across the Group together with our view on whether or not we expect to be able to make use of these in the future.

**Accounting policies**

Tax on the profit or loss for the year comprises current and deferred tax. We recognise tax in the income statement, unless:

- it relates to items we have recognised directly in equity, in which case we recognise it in equity; or
- it arises as a fair value adjustment in a business combination.

We provide for current tax, including UK corporation tax and foreign tax, at the amounts we expect to pay (or recover), using the tax rates and the laws enacted or substantively enacted at the balance sheet date, together with any adjustments to tax payable in respect of previous years.

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 11. Taxation and deferred taxation continued

Deferred tax is tax we expect to pay or recover due to differences between the carrying amounts of our assets and liabilities in our Financial Statements and the corresponding tax bases used in calculating our taxable profit. We account for deferred tax using the balance sheet liability method.

We generally recognise deferred tax liabilities for all taxable temporary differences, and deferred tax assets to the extent that we will probably have taxable profits to utilise deductible temporary differences against. We do not recognise these assets and liabilities if the temporary difference arises from:

- our initial recognition of goodwill; or
- our initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither our taxable profit nor our accounting profit.

We recognise deferred tax liabilities for taxable temporary differences arising on our investments in subsidiaries, and interests in joint ventures and associates, except where we can control the reversal of the temporary difference, and it is probable that it will not reverse in the foreseeable future.

We calculate deferred tax at the tax rates we expect to apply in the period when we settle the liability or realise the asset. We charge or credit deferred tax in the income statement, except when it relates to items we have charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Income tax expense**

| | 2016 £m | 2015 £m |
|---|---|---|
| **Current tax expense** | | |
| Current period | 10.4 | 13.0 |
| Adjustment for prior periods | (1.4) | (0.4) |
| **Total current tax expense in the Group Income Statement** | 9.0 | 12.6 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 0.7 | 5.1 |
| Adjustment for prior periods | 0.9 | (0.4) |
| **Total deferred tax expense in the Group Income Statement** | 1.6 | 4.7 |
| **Total income tax expense excluding share of income tax of equity accounted investees** | 10.6 | 17.3 |
| Share of income tax of equity accounted investees (see note 17) | 1.4 | 0.7 |
| **Total income tax expense in the Group Income Statement** | 12.0 | 18.0 |

**Reconciliation of effective tax rate**

| | 2016 % | 2016 £m | 2015 % | 2015 £m |
|---|---|---|---|---|
| **Profit before tax** | | 60.9 | | 57.8 |
| Income tax at UK corporation tax of 20.00% (2015: 20.75%) | 20.00 | 12.2 | 20.75 | 12.0 |
| Effect of tax rates in foreign jurisdictions | 1.80 | 1.1 | 13.85 | 8.0 |
| Non-deductible expenses | 0.50 | 0.3 | 2.40 | 1.4 |
| Tax exempt income and incentives | (4.10) | (2.5) | (6.40) | (3.7) |
| Change in tax rate | 1.30 | 0.8 | (1.00) | (0.6) |
| Movements in recognition of tax losses | 1.20 | 0.7 | 1.00 | 0.6 |
| Change in unrecognised temporary differences | (0.30) | (0.2) | 1.70 | 1.0 |
| Tax overprovided in prior periods | (0.50) | (0.3) | (1.40) | (0.8) |
| Tax on undistributed reserves | (0.20) | (0.1) | 0.20 | 0.1 |
| **Total income tax expense in the Group Income Statement** | 19.70 | 12.0 | 31.10 | 18.0 |

The tax rate for the year depends on our mix of profits by country, particularly the high proportion of profits we generate in North America, and our ability to recognise deferred tax assets in respect of losses in some of our smaller territories. Tax is calculated using prevailing tax legislation, reliefs, and existing interpretations and practice. However tax laws may change in the future as countries reform their tax legislation to implement the OECD's BEPS recommendations and such future changes could impact the Group's future tax charge and effective tax rate.

The tax credit attributable to exceptional items is £5.4m (2015: charge of £1.6m).

## 11. Taxation and deferred taxation continued

**Income tax recognised directly in the Statement of Comprehensive Income and Statement of Changes in Equity**

| | 2016 £m | 2015 £m |
|---|---|---|
| **Income tax recognised directly to the Statement of Comprehensive Income** | | |
| Financial instruments | **(0.1)** | – |
| Foreign exchange differences on long-term intra-Group currency loans | **(0.1)** | 0.3 |
| Actuarial movement on retirement benefit obligations | **(4.5)** | (1.6) |
| Translation of biological assets, intangible assets and finance leases | **17.0** | 6.4 |
| | **12.3** | 5.1 |
| **Income tax recognised directly to the Statement of Changes in Equity** | | |
| Share-based payment expense | **(0.1)** | (0.8) |

**Unrecognised deferred tax assets and liabilities**

At the balance sheet date, the Group had unused tax losses which were available for offset against future profits, with a potential tax benefit of £15.2m (2015: £11.9m). We have recognised a deferred tax asset in respect of £2.5m (2015: £1.5m) of these benefits as we expect these losses to be offset against future profits of the relevant jurisdictions in the near term. We have not recognised a deferred tax asset in respect of the remaining £12.7m (2015: £10.4m), due to uncertainty about the availability of future taxable profits in the relevant jurisdictions.

At 30 June 2016, the expiry dates of deferred tax assets in respect of losses available for the carry forward are as follows:

| | Expiring within | | | |
|---|---|---|---|---|
| | 1–10 years £m | 11–20 years £m | Unlimited £m | Total £m |
| Losses for which a deferred tax asset is recognised | **–** | **0.3** | **2.2** | **2.5** |
| Losses for which no deferred tax asset is recognised | **–** | **–** | **12.7** | **12.7** |
| | **–** | **0.3** | **14.9** | **15.2** |

At 30 June 2015, the expiry dates of deferred tax assets in respect of losses available for the carry forward are as follows:

| | Expiring within | | | |
|---|---|---|---|---|
| | 1–10 years £m | 11–20 years £m | Unlimited £m | Total £m |
| Losses for which a deferred tax asset is recognised | – | 0.3 | 1.2 | 1.5 |
| Losses for which no deferred tax asset is recognised | 0.1 | – | 10.3 | 10.4 |
| | 0.1 | 0.3 | 11.5 | 11.9 |

We have not recognised deferred tax liabilities totalling £4.5m (2015: £3.9m) for the withholding tax and other taxes that would be payable on the unremitted earnings of certain overseas subsidiaries. This is because we can control the timing and reversal of these differences and it is probable that the differences will not reverse in the foreseeable future.

**Recognised deferred tax assets and liabilities**

We have offset deferred tax assets and liabilities above, to the extent that they arise in the same tax jurisdiction.

The following is the analysis of the deferred tax balances:

| | 2016 £m | 2015 £m |
|---|---|---|
| Deferred tax assets | **(4.7)** | (7.8) |
| Deferred tax liabilities | **118.5** | 105.2 |
| | **113.8** | 97.4 |

UK deferred tax assets and liabilities are stated at 18%. The Government intends to enact a further reduction in the main tax rate down to 17% effective from 1 April 2020. As this tax rate was not substantively enacted at the balance sheet date, the relevant rate reduction is not yet reflected in these Financial Statements, as it is a non-adjusting event occurring after the reporting period.

We estimate that the future rate change to 17% would reduce our UK net deferred tax asset recognised at 30 June 2016 from £4.2m to £4.0m. The actual impact will be dependent on our deferred tax position at that time.

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 11. Taxation and deferred taxation continued

**Movement in net deferred tax liabilities during the year**

| | Balance brought forward 1 July 2015 £m | Recognised in income statement £m | Changes in tax rate recognised in income statement £m | Prior year adjustments recognised in income statement £m | Recognised in equity £m | Acquisitions £m | Foreign exchange difference £m | Balance carried forward 30 June 2016 £m |
|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 4.4 | 0.7 | 0.2 | 0.6 | – | – | 1.1 | **7.0** |
| Intangible assets | 18.5 | (1.7) | (0.4) | (0.2) | 0.8 | 0.3 | 1.4 | **18.7** |
| Biological assets | 97.5 | (5.5) | 1.0 | – | 16.0 | 0.7 | – | **109.7** |
| Retirement benefit obligations | (13.2) | 7.9 | 0.7 | – | (4.5) | – | (0.5) | **(9.6)** |
| Share-based payment expense | (1.9) | (0.5) | 0.3 | – | (0.1) | – | – | **(2.2)** |
| Short-term timing differences | (6.4) | (1.3) | 0.2 | 0.5 | 0.2 | – | (0.5) | **(7.3)** |
| Tax loss carry-forwards | (1.5) | (1.1) | 0.2 | – | – | – | (0.1) | **(2.5)** |
| | 97.4 | (1.5) | 2.2 | 0.9 | 12.4 | 1.0 | 1.4 | **113.8** |

| | Balance brought forward 1 July 2014 £m | Recognised in income statement £m | Changes in tax rate recognised in income statement £m | Prior year adjustments recognised in income statement £m | Recognised in equity £m | Acquisitions £m | Foreign exchange difference £m | Balance carried forward 30 June 2015 £m |
|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 4.4 | (0.9) | 0.1 | 0.4 | – | – | 0.4 | 4.4 |
| Intangible assets | 17.6 | (1.3) | 0.1 | (0.8) | 0.2 | 2.1 | 0.6 | 18.5 |
| Biological assets | 81.6 | 8.1 | 0.7 | 0.9 | 6.2 | – | – | 97.5 |
| Retirement benefit obligations | (12.1) | 0.6 | – | – | (1.6) | – | (0.1) | (13.2) |
| Share-based payment expense | (1.1) | (0.2) | – | 0.1 | (0.7) | – | – | (1.9) |
| Short-term timing differences | (3.9) | (0.2) | (1.8) | (0.5) | – | – | – | (6.4) |
| Tax loss carry-forwards | (1.0) | (0.1) | – | (0.5) | – | – | 0.1 | (1.5) |
| | 85.5 | 6.0 | (0.9) | (0.4) | 4.1 | 2.1 | 1.0 | 97.4 |

### 12. Earnings per share

Basic earnings per share is the amount of profit generated for the financial year attributable to equity shareholders divided by the weighted average number of shares in issue during the year.

**Basic earnings per share from continuing operations**

| | 2016 | 2015 |
|---|---|---|
| **Basic earnings per share** | **81.1p** | 65.7p |

The calculation of basic earnings per share from continuing operations for the year ended 30 June 2016 is based on the net profit attributable to owners of the Company from continuing operations of £49.3m (2015: £39.9m) and a weighted average number of ordinary shares outstanding of 60,814,000 (2015: 60,702,000), which is calculated as follows:

**Weighted average number of ordinary shares (basic)**

| | 2016 000s | 2015 000s |
|---|---|---|
| Issued ordinary shares at the start of the year | **60,968** | 60,919 |
| Effect of own shares held | **(177)** | (239) |
| Shares issued on exercise of stock options | **23** | 22 |
| **Weighted average number of ordinary shares in year** | **60,814** | 60,702 |

**Diluted earnings per share from continuing operations**

| | 2016 | 2015 |
|---|---|---|
| **Diluted earnings per share** | **80.3p** | 64.9p |

## 12. Earnings per share continued

The calculation of diluted earnings per share from continuing operations for the year ended 30 June 2016 is based on the net profit attributable to owners of the Company from continuing operations of £49.3m (2015: £39.9m) and a weighted average number of ordinary shares outstanding, after adjusting for the effects of all potential dilutive ordinary shares, of 61,387,000 (2015: 61,476,000), which is calculated as follows:

**Weighted average number of ordinary shares (diluted)**

| | 2016 000s | 2015 000s |
|---|---|---|
| Weighted average number of ordinary shares (basic) | 60,814 | 60,702 |
| Dilutive effect of share options | 573 | 774 |
| **Weighted average number of ordinary shares for the purposes of diluted earnings per share** | 61,387 | 61,476 |

**Adjusted earnings per share from continuing operations**

| | 2016 | 2015 |
|---|---|---|
| **Adjusted earnings per share** | 60.7p | 56.8p |
| **Diluted adjusted earnings per share** | 60.1p | 56.1p |

Adjusted earnings per share is calculated on profit before net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, share-based payment expense and exceptional items, after charging taxation associated with those profits, of £36.9m (2015: £34.5m), which is calculated as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| **Profit before tax from continuing operations** | 60.9 | 57.8 |
| Add/(deduct): | | |
| Net IAS 41 valuation movement on biological assets | 17.1 | (24.9) |
| Amortisation of acquired intangible assets | 6.1 | 6.1 |
| Share-based payment expense | 3.8 | 1.4 |
| Exceptional items (see note 7) | (36.3) | 5.1 |
| Net IAS 41 valuation movement on biological assets in joint ventures | (1.9) | 1.0 |
| Tax on joint ventures and associates | 1.4 | 0.7 |
| Attributable to non-controlling interest | (1.4) | (0.6) |
| **Adjusted profit before tax** | 49.7 | 46.6 |
| Adjusted tax charge | (12.8) | (12.1) |
| **Adjusted profit after tax** | 36.9 | 34.5 |
| **Effective tax rate on adjusted profit** | 25.8% | 26.0% |

## 13. Dividends

Dividends are one type of shareholder return, historically paid to our shareholders in December and March.

**Amounts recognised as distributions to equity holders in the year**

| | 2016 £m | 2015 £m |
|---|---|---|
| **Final dividend** | | |
| Final dividend for the year ended 30 June 2015 of 13.4 pence per share | 8.1 | – |
| Final dividend for the year ended 30 June 2014 of 12.2 pence per share | – | 7.4 |
| **Interim dividend** | | |
| Interim dividend for the year ended 30 June 2016 of 6.7 pence per share | 4.1 | – |
| Interim dividend for the year ended 30 June 2015 of 6.1 pence per share | – | 3.7 |
| | 12.2 | 11.1 |

The Directors have proposed a final dividend of 14.7 pence per share for 2016. This is subject to shareholders' approval at the Annual General Meeting and we have therefore not included it as a liability in these Financial Statements.

# Notes to the Group Financial Statements continued

For the year ended 30 June 2016

## 14. Intangible assets

Our Group Balance Sheet contains significant intangible assets, mainly in relation to goodwill, acquired technology, customer relationships and our Genus Sexed Semen ('GSS') development project. We recognise that accounting for intangible assets is an area which includes critical accounting judgements and key sources of estimation uncertainty. See note 4.

**Accounting policies**

Identifiable intangible assets are recognised when the Group controls the asset, it is probable that future economic benefits attributed to the asset will flow to the Group and the cost of the asset can be reliably measured.

### Goodwill

When we acquire a subsidiary, associate or joint venture, the goodwill arising is the excess of the acquisition cost ('CGUs'), excluding transaction costs, over our interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Identifiable assets include intangible assets which could be sold separately or which arise from legal rights, regardless of whether those rights are separable.

We state goodwill at cost less any accumulated impairment losses. We allocate goodwill to cash-generating units, which are the smallest identifiable Group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or Groups of assets. We do not amortise goodwill but we do test it annually for impairment.

IAS 21 requires us to treat the following as assets and liabilities of the acquired entity, rather than of the acquiring entity:
- goodwill arising on acquisition of a foreign operation; and
- any fair value adjustments we make on acquisition to the carrying amounts of the acquiree's assets and liabilities.

We therefore express them in the foreign operation's functional currency and retranslate them at the balance sheet date.

### Intangible assets

Intangible assets that we have acquired in a business combination since 1 April 2005 are identified and recognised separately from goodwill, where they meet the definition of an intangible asset and we can reliably measure their fair values. Their cost is their fair value at the acquisition date.

After their initial recognition, we report these intangible assets at cost less accumulated amortisation and accumulated impairment losses. This is the same basis as for intangible assets acquired separately.

The estimated useful lives for intangible assets are as follows:

| | |
|---|---|
| Software | 2 to 10 years |
| Porcine and bovine genetics technology | 20 years |
| Multiplier contracts | 15 years |
| Customer relationships | 10 to 17 years |
| Patents and licences | term of agreement |

### Intangible assets acquired separately

We carry intangible assets acquired other than through a business combination at cost less accumulated amortisation and any impairment loss. We charge amortisation on a straight-line basis over their estimated useful lives, and review the useful life and amortisation method at the end of each financial year, accounting for the effect of any changes in estimate on a prospective basis.

### Impairment

We review the carrying amounts of our tangible and intangible assets at each balance sheet date, to determine whether there is any indication of impairment. If any indication exists, we estimate the asset's recoverable amount.

For goodwill, and tangible and intangible assets that are not yet available for use, we estimate the recoverable amount at each balance sheet date. The recoverable amount is the greater of their net selling price and value in use. In assessing value in use, we discount the estimated future cash flows to their present value, using a pre-tax discount rate of 10.8% (2015: 10.8%), which is derived from the Group's weighted average cost of capital. For some countries we add a premium to this rate, to reflect the risk attributable to that country. If the asset does not generate largely independent cash inflows, we determine the recoverable amount for the CGU that the asset belongs to.

We recognise an impairment loss in the income statement whenever the carrying amount of an asset or its CGU exceeds its recoverable amount.

When we recognise an impairment loss in respect of a CGU, we first allocate it to reduce the carrying amount of any goodwill allocated to CGUs, and then apply any remaining loss to reduce the carrying amount of the unit's other assets on a pro rata basis.

### Reversals of impairment

We reverse an impairment loss in respect of assets other than goodwill when the impairment loss may no longer exist and we have changed the estimates we used to determine the recoverable amount.

We only reverse an impairment loss to the extent that the asset's carrying amount does not exceed the carrying amount it would have had, net of depreciation or amortisation, if we had not recognised the impairment loss.

## 14. Intangible assets continued

| | Technology £m | Brand, multiplier contracts and customer relationships £m | Separately identified acquired intangible assets £m | Software £m | Genus Sexed Semen £m | Patents, licence and other £m | Total £m | Goodwill £m |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at 1 July 2014 | 42.7 | 54.9 | 97.6 | 6.5 | 7.7 | 0.5 | 112.3 | 69.9 |
| Additions | – | – | – | – | 2.8 | – | 2.8 | – |
| Acquisition | 3.5 | 4.1 | 7.6 | – | – | – | 7.6 | 5.3 |
| Disposal | – | – | – | – | – | (0.2) | (0.2) | – |
| Effect of movements in exchange rates | (0.1) | 2.5 | 2.4 | 0.1 | 0.6 | – | 3.1 | (1.3) |
| **Balance at 30 June 2015** | 46.1 | 61.5 | 107.6 | 6.6 | 11.1 | 0.3 | 125.6 | 73.9 |
| Additions | – | – | – | – | 4.6 | 2.2 | 6.8 | – |
| Acquisition (see note 36) | – | 0.7 | 0.7 | – | – | – | 0.7 | 1.9 |
| Effect of movements in exchange rates | 0.5 | 10.5 | 11.0 | 0.3 | 2.1 | 0.1 | 13.5 | 10.2 |
| **Balance at 30 June 2016** | **46.6** | **72.7** | **119.3** | **6.9** | **17.8** | **2.6** | **146.6** | **86.0** |
| **Amortisation and impairment losses** | | | | | | | | |
| Balance at 1 July 2014 | 17.5 | 26.6 | 44.1 | 3.8 | – | – | 47.9 | – |
| Amortisation for the year | 2.3 | 3.8 | 6.1 | 0.6 | – | – | 6.7 | – |
| Effect of movements in exchange rates | – | 1.1 | 1.1 | 0.1 | – | – | 1.2 | – |
| **Balance at 30 June 2015** | 19.8 | 31.5 | 51.3 | 4.5 | – | – | 55.8 | – |
| Amortisation for the year | 2.3 | 3.8 | 6.1 | 0.7 | – | 0.2 | 7.0 | – |
| Effect of movements in exchange rates | – | 5.6 | 5.6 | 0.2 | – | – | 5.8 | – |
| **Balance at 30 June 2016** | **22.1** | **40.9** | **63.0** | **5.4** | **–** | **0.2** | **68.6** | **–** |
| **Carrying amounts** | | | | | | | | |
| **At 30 June 2016** | **24.5** | **31.8** | **56.3** | **1.5** | **17.8** | **2.4** | **78.0** | **86.0** |
| **At 30 June 2015** | 26.3 | 30.0 | 56.3 | 2.1 | 11.1 | 0.3 | 69.8 | 73.9 |
| **At 30 June 2014** | 25.2 | 28.3 | 53.5 | 2.7 | 7.7 | 0.5 | 64.4 | 69.9 |

Additions in the year to intangible assets of £4.6m relates to costs capitalised in respect of the GSS development project. Included above is £17.8m of capitalised development expenses in respect of GSS, and in addition there is also £7.7m included within fixed assets relating to GSS.

During the year, we acquired a worldwide licence to use Caribou Biosciences, Inc.'s leading CRISPR-Cas9 gene editing technology platform.

**Impairment testing for cash-generating units containing goodwill**
To test impairment, we allocate goodwill to our operating segments. These are the lowest level within the Group at which we monitor goodwill for internal management purposes.

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Genus PIC | **56.7** | 49.2 |
| Genus ABS | **21.9** | 17.2 |
| Genus Asia | **7.4** | 7.5 |
| | **86.0** | 73.9 |

We test goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. We determine the recoverable amount of our CGUs by using value in use calculations. The key assumptions for these calculations relate to discount rates, growth rates, expected changes to selling prices, direct costs and the cost saving derived from the GSS project.

We have estimated the pre-tax discount rate using the Group's weighted average cost of capital ('WACC'). We risk adjusted the discount rate for risks specific to each market, adding between nil and 16% to the WACC as appropriate. The post-tax WACC of 8.0% (2015: 8.0%) we applied to our cash flow projections equates to a pre-tax rate of approximately 10.8% (2015: 10.8%). Our estimates of changes in selling prices and direct costs are based on past experience and our expectations of future changes in the market.

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 14. Intangible assets continued

The annual impairment test is performed immediately before year end and is based on cash flows derived from our most recent financial and strategic plans approved by management and extrapolate cash flows beyond this period using estimated growth rates. Short-term profitability and growth rates are based on past experience, current trading conditions and our expectations of future changes in the market.

We have applied annual growth rates to cash flows in the five-year financial and strategic planning period. A growth rate of 2.5% (2015: 2.5%) has been used to extrapolate cash flows beyond this period.

Genus PIC and Genus ABS CGUs are deemed to be significant. The individual country assumptions used to determine value in use for these CGUs are:

| | Risk adjusted discount rate | | Short-term growth rates (CAGR) | | Long-term growth rates | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Genus PIC | **8–23%** | 11–26% | **6–12%** | 1–14% | **2.5%** | 2.5% |
| Genus ABS | **8–19%** | 11–26% | **1–15%** | 3–19% | **2.5%** | 2.5% |

The rates towards the higher end of the range above represent those which are applied to our smaller entities and those in emerging markets and hence appear high relative to others.

**Sensitivity to changes in assumptions**

Sensitivity analysis has been performed on all of the key assumptions noted above and we believe that no reasonable potential change in any of them would cause the carrying value of any unit to exceed its recoverable amount.

### 15. Biological assets

The Group applies quantitative genetics and biotechnology to animal breeding. We use these techniques to identify and select animals with the genes responsible for superior milk and meat, high health and performance traits. We sell breeding animals and semen to customers, who use them to produce offspring which yield greater production efficiency, milk and meat quality, for the global dairy and meat supply chain. We recognise that accounting for biological assets is an area which includes critical accounting judgements and key sources of estimation uncertainty. See note 4.

**Accounting policies**

Biological assets and inventories

In bovine, we use research and development to identify genetically superior bulls in a number of breeds, primarily the Holstein dairy breed. Each selected bull has its performance measured against its peers, by using genomic evaluations and progeny testing of its daughters' performance. We collect and freeze semen from the best bulls, to satisfy our customers' demand. Farmers use semen from dairy breeds to breed replacement milking stock. They use the semen we sell from beef breeds in either specialist beef breeding herds, for multiplying breeding bulls for use in natural service, or on dairy cows to produce animals to be reared for meat.

We hold our bovine biological assets for long-term internal use and classify them as non-current assets. We transfer bull semen to inventory at its fair value at the point of harvest, which becomes its deemed cost under IAS 2. We state our inventories at the lower of this deemed cost and net realisable value.

Sorting semen is a production process rather than a biological process. As a result, we transfer semen inventory into sexed semen production at its fair value at the point of harvest, less the cost to sell, and it becomes a component of the production process. We carry sexed semen in finished goods at production cost.

In porcine, we maintain and develop a central breeding stock (the 'nucleus herd'), to provide genetically superior animals. These genetics help make farmers and food processors more profitable, by increasing their output of consistently high-quality products, which yield higher value. So we can capitalise on our intellectual property, we outsource the vast majority of our pig production to our global multiplier network. We also sell the offspring or semen we obtain from animals in the nucleus herd to customers for use in commercial farming.

Pig sales generally occur in one of two ways: 'upfront' and 'royalty'. Under upfront sales, we receive the full fair value of the animal at the point we transfer it to the customer. Under royalty sales, the pig is regarded as comprising two separately identifiable components: its carcass and its genetic potential. We receive the initial consideration, which is approximately the animal's carcass value, at the point we transfer the pig to the customer. We retain our interest in the pig's genetic potential and receive royalties for the customer's use of this genetic potential.

The breeding animal biological assets we own, and our retained interest in the biological assets we have sold under royalty contracts, are recognised and measured at fair value at each balance sheet date. We recognise changes in fair value in the income statement, within operating profit for the period.

We classify the porcine biological assets we are using as breeding animals, as non-current assets and carry them at fair value. The porcine biological assets we are holding for resale, which are the offspring of the breeding herd, are carried at fair value and classified as current assets. We split our retained interest in the genetics from royalty sales between current and non-current assets, based on the remaining expected life of the animals.

## 15. Biological assets continued

### Determination of fair values – biological assets

IAS 41 *'Agriculture'* requires us to show the carrying value of biological assets in the Group Balance Sheet. We determine this carrying value according to IAS 41's provisions and show the net valuation movement in the income statement. There are important differences in how we value our bovine and porcine assets, as explained below.

Bovine – we base the fair value of proven bulls, bulls with a genomic evaluation and bulls on test, on the net cash flows we expect to receive from selling their semen, discounted at a current market-determined pre-tax rate. Proven bulls are those we have evaluated through daughter proofs and whose semen we actively market. Genomic bulls are those we market on their estimated genetic value. We adjust the fair value of the bovine herd and semen inventory we manage where a third party has a share in semen sales from a particular bull. The significant assumptions determining the fair values are the expected future demand for semen, estimated production value, each bull's expected marketable life and, for bulls on test, the percentage whose production we expect to actively market. In assessing the sales price, we use independent statistical data for the bulls. This data is produced three times a year in all our major markets. In addition, we estimate which markets we will sell the semen in, as well as domestic and export prices. Bulls that have not yet entered our testing programme have a fair value equivalent to their acquisition and rearing costs.

Porcine – the fair value of porcine biological assets includes the animals we own entirely and our retained interest in the genetics of animals we have sold under royalty arrangements. The fair value of animals we own is calculated using the animals' average live weights, plus a premium where we believe that their genetics make them saleable. We base the live weight value and the genetic premium on recent transaction prices we have achieved. The significant assumptions in determining fair values are the breeding animals' expected life, the percentage of production animals that are saleable as breeding animals, and the expected sales prices. For our retained interest in the genetics of animals sold under royalty contracts, we base the initial fair value on the fair values we achieved in recent direct sales of similar animals, less the amount we received upfront for the carcass element. We then remeasure the fair value of our retained interest at each reporting date. The significant assumption in determining the fair value of the retained interest is the animals' expected life.

We value the pigs in our pure line herds, which are the repository of our proprietary genetics, as a single unit of account. We do this using a discounted cash flow model, applied to the herds' future outputs at current prices. The significant assumptions we make are the number of future generations attributable to the current herds, the fair value prices we achieve on sales, the animals' expected useful lifespan and productivity, and the discount rate.

### Non-recognition of porcine multiplier contracts where no contractual interest is retained by the Group

To manage commercial risk, a very large part of our porcine business model involves selling pigs to farmers ('multipliers') who produce piglets on farms we neither manage nor control. We have the option, but not the obligation, to buy the offspring at slaughter market value plus a premium. Because the offspring have superior genetics, we can then sell them to other farmers at a premium.

We do not recognise the right to purchase offspring on the balance sheet, as we enter into the contracts and continue to hold them for the purpose of receiving non-financial items (the offspring), in accordance with our expected purchase requirements. This means the option is outside the scope of IAS 39. We do not recognise the offspring as biological assets under IAS 41, as we do not own or control them.

**Fair value of biological assets**

| | Bovine £m | Porcine £m | Total £m |
|---|---|---|---|
| Non-current biological assets | 128.6 | 80.3 | 208.9 |
| Current biological assets | – | 44.1 | 44.1 |
| **Balance at 30 June 2014** | 128.6 | 124.4 | 253.0 |
| Increases due to purchases | 6.9 | 119.6 | 126.5 |
| Decreases attributable to sales | – | (166.3) | (166.3) |
| Decrease due to harvest | (34.8) | (16.7) | (51.5) |
| Changes in fair value less estimated sale costs | 34.5 | 78.7 | 113.2 |
| Effect of movements in exchange rates | 9.6 | 8.4 | 18.0 |
| **Balance at 30 June 2015** | 144.8 | 148.1 | 292.9 |
| Non-current biological assets | 144.8 | 97.9 | 242.7 |
| Current biological assets | – | 50.2 | 50.2 |
| **Balance at 30 June 2015** | 144.8 | 148.1 | 292.9 |
| Increases due to purchases | 7.7 | 112.9 | 120.6 |
| Decreases attributable to sales | – | (152.0) | (152.0) |
| Decrease due to harvest | (31.6) | (18.0) | (49.6) |
| Changes in fair value less estimated sale costs | 2.1 | 67.7 | 69.8 |
| Acquisition | 1.9 | – | 1.9 |
| Effect of movements in exchange rates | 21.4 | 26.0 | 47.4 |
| **Balance at 30 June 2016** | **146.3** | **184.7** | **331.0** |
| Non-current biological assets | 146.3 | 118.3 | 264.6 |
| Current biological assets | – | 66.4 | 66.4 |
| **Balance at 30 June 2016** | **146.3** | **184.7** | **331.0** |

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 15. Biological assets continued

Bovine biological assets include £7.8m (2015: £6.0m) representing the fair value of bulls owned by third parties but managed by the Group, net of expected future payments to such third parties and are therefore treated as assets held under finance leases.

There are no movements in the carrying value of the bovine biological assets in respect of sales or other changes during the year.

The current market-determined post-tax rate used to discount expected future net cash flows from the sale of bull semen is the Group's weighted average cost of capital. This has been assessed as 8.0% (2015: 8.0%).

Decreases due to harvest represent the semen extracted from the biological assets. Inventories of such semen are shown as biological asset harvest in note 19.

Included in increases due to purchases is the aggregate increase arising during the period on initial recognition of biological assets in respect of multiplier purchases, other than parent gilts, of £49.4m (2015: £43.3m).

Decreases attributable to sales during the period of £152.0m (2015: £166.3m) include £49.6m (2015: £37.0m) in respect of the reduction in fair value of the retained interest in the genetics of animals, other than parent gilts, transferred under royalty contracts.

Porcine biological assets include £69.3m (2015: £65.2m) relating to the fair value of the retained interest in the genetics in respect of animals, other than parent gilts, to customers under royalty contracts.

Total revenue in the period, including parent gilts, includes £127.2m (2015: £114.5m) in respect of these contracts, comprising £38.1m (2015: £37.4m) on initial transfer of animals to customers and £89.1m (2015: £77.1m) in respect of royalties received.

For pure line porcine herds, the net cash flows from the expected output of the herds are discounted at the Group's required rate of return, adjusted for the greater risk implicit in including output from future generations. This adjusted rate has been assessed as 11.0% (2015: 11.0%). The number of future generations which have been taken into account is seven (2015: seven) and their estimated useful lifespan is 1.3 years (2015: 1.3 years).

**Year ended 30 June 2016**

| | Bovine £m | Porcine £m | Total £m |
|---|---|---|---|
| Net IAS 41 valuation movement on biological assets* | | | |
| Changes in fair value of biological assets | **(2.9)** | **67.7** | **64.8** |
| Inventory transferred to cost of sales at fair value | **(23.6)** | **(18.0)** | **(41.6)** |
| Biological assets transferred to cost of sales at fair value | **–** | **(39.7)** | **(39.7)** |
| | **(26.5)** | **10.0** | **(16.5)** |
| Fair value movement in related financial derivative | **–** | **(0.6)** | **(0.6)** |
| | **(26.5)** | **9.4** | **(17.1)** |

**Year ended 30 June 2015**

| | Bovine £m | Porcine £m | Total £m |
|---|---|---|---|
| Net IAS 41 valuation movement on biological assets* | | | |
| Changes in fair value of biological assets | 34.5 | 78.7 | 113.2 |
| Inventory transferred to cost of sales at fair value | (30.0) | (16.7) | (46.7) |
| Biological assets transferred to cost of sales at fair value | – | (42.2) | (42.2) |
| | 4.5 | 19.8 | 24.3 |
| Fair value movement in related financial derivative | – | 0.6 | 0.6 |
| | 4.5 | 20.4 | 24.9 |

* This represents the difference between operating profit prepared under IAS 41 and operating profit prepared under historical cost accounting, which forms part of the reconciliation to adjusted operating profit.

## 15. Biological assets continued

**Fair value measurement**

All of the biological assets fall under Level 3 of the hierarchy defined in IFRS 13.

**Unobservable inputs**

| | 2016 | 2015 | Sensitivity |
|---|---|---|---|
| **Bovine** | | | |
| Long-term growth rate in volumes | **2.6%** | 3.0% | 1% decrease in the growth rate would result in approximately a £3.8m reduction in value. |
| Weighted average cost of capital | **8.0%** | 8.0% | 1% increase in the discount rate would result in approximately a £3.8m reduction in value. |
| Value at point of production | **16–26%** | 16–26% | 1% decrease in the rate would result in approximately a £6.0m reduction in value. |
| **Porcine** | | | |
| Weighted average cost of capital | **8–11%** | 8–11% | 1% increase in the discount rate would result in approximately a £2.2m reduction in value. |

Significant increases/(decreases) in any of those inputs in isolation would result in a significantly lower/(higher) fair value measurement. These assumptions vary significantly across different countries and species.

**Additional information**

| | 2016 | 2015 |
|---|---|---|
| **Bovine** | | |
| Quantities at period end | | |
| Number of proven bulls | **258** | 277 |
| Number of genomic bulls | **280** | 110 |
| Total number of marketable bulls | **538** | 387 |
| Number of doses of semen valued in inventory | **7.2m** | 8.2m |
| Total number of bulls in development, excluding marketable bulls | **1,071** | 1,325 |
| Amounts during the year | | |
| Fair value of agricultural produce – semen harvested during the period | **£31.6m** | £34.8m |
| **Porcine** | | |
| Quantities at period end | | |
| Number of pigs (own farms) | **120,051** | 131,842 |
| Number of pigs, excluding parent gilts, despatched on a royalty basis and valued at fair value | **74,602** | 67,835 |
| Amounts during the year | | |
| Fair value of agricultural produce – semen harvested during the period | **£18.0m** | £16.7m |

## 16. Property, plant and equipment

We make significant investments in our property, plant and equipment. All assets are depreciated over their useful economic lives.

**Accounting policies**

We state property, plant and equipment at cost, together with any directly attributable expenses of acquisition, or at their latest valuation, less depreciation and any impairment losses. Where parts of an item of property, plant and equipment have different useful lives, we account for them separately.

We charge depreciation to the income statement on a straight-line basis, over the estimated useful lives of each part of an asset. The estimated useful lives are as follows:

- Freehold buildings — 10 to 40 years
- Leasehold buildings — over the term of the lease
- Plant and equipment — 3 to 20 years
- Motor vehicles — 3 to 5 years

We do not depreciate land and assets not available for use.

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 16. Property, plant and equipment continued

| | Land and buildings £m | Plant, motor vehicles and equipment £m | Assets under construction £m | Total £m |
|---|---|---|---|---|
| **Cost or deemed cost** | | | | |
| Balance at 1 July 2014 | 32.0 | 36.9 | 2.0 | 70.9 |
| Additions | 4.2 | 3.5 | 6.5 | 14.2 |
| Acquisition | 0.2 | 0.9 | – | 1.1 |
| Reclassification | – | 3.5 | (3.5) | – |
| Disposals | (0.1) | (1.5) | – | (1.6) |
| Effect of movements in exchange rates | 1.0 | 1.9 | 0.1 | 3.0 |
| **Balance at 30 June 2015** | 37.3 | 45.2 | 5.1 | 87.6 |
| Additions | 2.0 | 4.1 | 8.0 | 14.1 |
| Reclassification | 2.0 | 4.7 | (6.7) | – |
| Disposals | (0.9) | (3.2) | (0.7) | (4.8) |
| Effect of movements in exchange rates | 6.9 | 7.9 | 0.9 | 15.7 |
| **Balance at 30 June 2016** | **47.3** | **58.7** | **6.6** | **112.6** |
| **Depreciation and impairment losses** | | | | |
| Balance at 1 July 2014 | 11.3 | 19.0 | – | 30.3 |
| Depreciation for the year | 1.8 | 4.5 | – | 6.3 |
| Disposals | (0.1) | (0.8) | – | (0.9) |
| Effect of movements in exchange rates | 0.2 | 1.4 | – | 1.6 |
| **Balance at 30 June 2015** | 13.2 | 24.1 | – | 37.3 |
| Depreciation for the year | 2.0 | 5.9 | – | 7.9 |
| Disposals | (0.7) | (2.4) | – | (3.1) |
| Effect of movements in exchange rates | 2.7 | 6.0 | – | 8.7 |
| **Balance at 30 June 2016** | **17.2** | **33.6** | **–** | **50.8** |
| **Carrying amounts** | | | | |
| **At 30 June 2016** | **30.1** | **31.7** | **6.6** | **61.8** |
| **At 30 June 2015** | 24.1 | 21.1 | 5.1 | 50.3 |
| **At 30 June 2014** | 20.7 | 17.9 | 2.0 | 40.6 |

**Leased plant and machinery**

At 30 June 2016, plant, motor vehicles and equipment included assets held under finance leases with a carrying value of £7.8m (2015: £6.8m, 2014: £5.6m). The associated depreciation charge for the year was £1.5m (2015: £1.2m, 2014: £0.9m).

### 17. Equity accounted investees

We hold interests in several joint ventures and associates where we have significant influence.

**Accounting policies**

Joint ventures are entities over whose activities we have joint control, under a contractual agreement. The Group Financial Statements include the Group's share of profit or loss arising from joint ventures.

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. The Group Financial Statements include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date it ceases. When our share of losses exceeds our interest in an associate, we reduce the carrying amount to nil and stop recognising further losses, except to the extent that the Group has incurred legal or constructive obligations or made payments on an associate's behalf.

Under the equity method, investments in joint ventures or associates are initially recognised in the Group Balance sheet at cost and adjusted thereafter to recognised the Group's share of the profit or loss and other comprehensive income of the joint ventures and associates. Related party transactions with the Group's joint ventures and associates primarily comprise product and services. As each arrangement is a separate legal entity and control rights are substantially equal with the other parties, there are no significant judgements required to be made.

## 17. Equity accounted investees continued

The Group's share of profit after tax in its equity accounted investees for the year was £6.9m (2015: £2.9m).

The carrying value of the investment is reconciled as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| **Balance at 1 July** | **19.6** | 21.7 |
| Share of post-tax profits of joint ventures and associates retained | **6.9** | 2.9 |
| Dividends received | **(2.4)** | (2.3) |
| Shareholder loan repayment | **(1.0)** | – |
| Addition | **0.2** | 0.8 |
| Effect of other movements including exchange rates | **1.0** | (3.5) |
| **Balance at 30 June** | **24.3** | 19.6 |

During the year, the Group injected further capital into its investment under a joint venture agreement with B.G. Chitale Dairies Pvt. Ltd (Chitale Genus ABS (India) Pvt. Ltd in India) of £0.2m.

There are no significant restrictions on the ability of the joint ventures and associates to transfer funds to the parent, other than those imposed by the Companies Act 2006 or equivalent government rules within the joint venture jurisdiction.

**Related party transactions with joint ventures and associates**

| | Transaction value | | Balance outstanding | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Purchase of goods and services to joint ventures and associates | **2.0** | 3.6 | **(0.7)** | (0.1) |

All outstanding balances with joint ventures and associates are priced on an arm's length basis and are to be settled in cash within six months of the reporting date. None of the balances are secured.

Summary financial information for equity accounted investees, adjusted for the percentage ownership held by the Group:

**Joint ventures and associates – year ended 30 June 2016**

| Net assets | Ownership | Current assets £m | Non-current assets £m | Biological assets £m | Total assets £m | Current liabilities £m | Total liabilities £m | Net assets £m |
|---|---|---|---|---|---|---|---|---|
| Agroceres – PIC Genética de Suínos Ltda [Brazil] | 49% | 6.8 | 6.2 | 3.9 | 16.9 | (1.8) | (1.8) | 15.1 |
| HY-CO Hybridschweine-Cooperations GmbH [Germany] | 50% | 0.1 | – | – | 0.1 | – | – | 0.1 |
| Humei Pig Improvement Company China | 50% | 1.3 | 1.2 | – | 2.5 | (1.1) | (1.1) | 1.4 |
| Xianyang Yongxiang Agriculture Technology Co., Ltd. [China]* | 49% | 7.0 | 4.5 | 0.4 | 11.9 | (5.1) | (5.1) | 6.8 |
| Chitale Genus ABS (India) Private Limited [India] | 50% | 0.1 | 0.9 | – | 1.0 | (0.1) | (0.1) | 0.9 |
| | | 15.3 | 12.8 | 4.3 | 32.4 | (8.1) | (8.1) | 24.3 |

| Income statement | Ownership | Revenue £m | Net IAS 41 valuation movement on biological assets £m | Expenses £m | Operating profit £m | Taxation £m | Profit after tax £m |
|---|---|---|---|---|---|---|---|
| Agroceres – PIC Genética de Suínos Ltda [Brazil] | 49% | 14.7 | 1.7 | (10.2) | 6.2 | (1.4) | 4.8 |
| HY-CO Hybridschweine-Cooperations GmbH [Germany] | 50% | 1.2 | – | (1.1) | 0.1 | – | 0.1 |
| Humei Pig Improvement Company China | 50% | 3.7 | – | (3.5) | 0.2 | – | 0.2 |
| Xianyang Yongxiang Agriculture Technology Co., Ltd. [China]* | 49% | 4.0 | 0.2 | (2.4) | 1.8 | – | 1.8 |
| Chitale Genus ABS (India) Private Limited [India] | 50% | 0.1 | – | (0.1) | – | – | – |
| | | 23.7 | 1.9 | (17.3) | 8.3 | (1.4) | 6.9 |

* Classified as an associate

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 17. Equity accounted investees continued

**Joint ventures and associates – year ended 30 June 2015**

| Net assets | Ownership | Current assets £m | Non-current assets £m | Biological assets £m | Total assets £m | Current liabilities £m | Total liabilities £m | Net assets £m |
|---|---|---|---|---|---|---|---|---|
| Agroceres – PIC Genética de Suínos Ltda [Brazil] | 49% | 2.9 | 7.6 | 2.8 | 13.3 | (2.1) | (2.1) | 11.2 |
| HY-CO Hybridschweine-Cooperations GmbH [Germany] | 50% | 0.1 | – | – | 0.1 | – | – | 0.1 |
| Humei Pig Improvement Company China | 50% | 1.0 | – | – | 1.0 | – | – | 1.0 |
| Xianyang Yongxiang Agriculture Technology Co., Ltd. [China]* | 49% | 6.4 | – | 0.1 | 6.5 | – | – | 6.5 |
| Chitale Genus ABS (India) Private Limited [India] | 50% | 0.8 | – | – | 0.8 | – | – | 0.8 |
| | | 11.2 | 7.6 | 2.9 | 21.7 | (2.1) | (2.1) | 19.6 |

| Income statement | Ownership | Revenue £m | Net IAS 41 valuation movement on biological assets £m | Expenses £m | Operating profit £m | Taxation £m | Profit after tax £m |
|---|---|---|---|---|---|---|---|
| Agroceres – PIC Genética de Suínos Ltda [Brazil] | 49% | 17.1 | (0.6) | (12.3) | 4.2 | (0.7) | 3.5 |
| HY-CO Hybridschweine-Cooperations GmbH [Germany] | 50% | 2.9 | – | (2.9) | – | – | – |
| Humei Pig Improvement Company China | 50% | 2.4 | – | (2.8) | (0.4) | – | (0.4) |
| Xianyang Yongxiang Agriculture Technology Co., Ltd. [China]* | 49% | 3.4 | (0.4) | (3.2) | (0.2) | – | (0.2) |
| Chitale Genus ABS (India) Private Limited [India] | 50% | – | – | – | – | – | – |
| | | 25.8 | (1.0) | (21.2) | 3.6 | (0.7) | 2.9 |

* Classified as an associate

### 18. Other investments

We hold a number of unlisted investments, mainly comprising our strategic investment in Caribou Biosciences, Inc.

**Accounting policy**

Available for sale ('AFS') financial assets are non-derivatives that are either designated as AFS or are not classified as: (a) loans and receivables; (b) held-to-maturity; or (c) financial assets at fair value through the profit and loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

**AFS investments carried at fair value**

| | 2016 £m | 2015 £m |
|---|---|---|
| Shares | **3.6** | 0.2 |

During the year, we invested £3.5m ($5.0m) into a strategic non-controlling interest of 5% in Caribou Biosciences, Inc. These shares are not held for trading and accordingly are classified as available for sale.

### 19. Inventories

Our inventory primarily consists of bovine semen, raw materials and ancillary products.

**Accounting policies**

Inventory (excluding biological assets) is stated at the lower of cost and net realisable value. Cost is determined on the basis of weighted average costs and comprises direct materials and, where appropriate, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

For biological assets accounting policies, see note 15.

| | 2016 £m | 2015 £m |
|---|---|---|
| Biological assets' harvest classed as inventories | **23.4** | 23.0 |
| Raw materials and consumables | **0.9** | 1.0 |
| Goods held for resale | **11.4** | 8.2 |
| | **35.7** | 32.2 |

## 20. Trade and other receivables

Our trade and other receivables mainly consist of amounts owed to us by customers and amounts we pay to our suppliers in advance.

### Accounting policies

We state trade and other receivables at their amortised cost less any impairment losses.

| | 2016 £m | 2015 £m |
|---|---|---|
| Trade receivables | **65.0** | 64.4 |
| Other debtors | **5.5** | 4.7 |
| Prepayments and accrued income | **5.3** | 3.3 |
| Other taxes and social security | **2.3** | 2.3 |
| | **78.1** | 74.7 |

### Trade receivables

The average credit period our customers take on the sales of goods is 61 days (2015: 59 days). We do not charge interest on receivables for the first 30 days from the date of the invoice. We provide for all receivables based upon knowledge of the customer and historical experience, and estimate irrecoverable amounts by reference to past default experience.

No customer represents more than 5% of the total balance of trade receivables (2015: nil).

At 30 June 2016, £50.5m (2015: £45.0m) of trade receivables were not yet due for payment.

Included in the Group's trade receivables balance, net of provision are debtors with a carrying amount of £14.7m (2015: £19.6m) which are past due at the reporting date but which we have not provided for, as there has been no significant change in credit quality and we consider the amounts are recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 48 days (2015: 45 days).

Ageing of trade receivables that are past due and presented net of provisions that have been established:

| | 2016 £m | 2015 £m |
|---|---|---|
| **Days past due** | | |
| 0–30 days | **7.7** | 11.5 |
| 31–90 days | **5.1** | 5.5 |
| 91–180 days | **1.3** | 2.0 |
| Over 180 days | **0.6** | 0.6 |
| | **14.7** | 19.6 |

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. At 30 June 2016, trade receivables are shown net of an allowance for doubtful debts of £4.3m (2015: £3.1m).

### Movement in the allowance for doubtful debts

| | 2016 £m | 2015 £m |
|---|---|---|
| Balance at the start of the year | **3.1** | 3.2 |
| Impairment losses recognised | **2.6** | 0.4 |
| Amounts written off as uncollectible | **(0.5)** | (0.3) |
| Impairment losses reversed | **(1.3)** | (0.3) |
| (Disposed of on dissolution) and acquired on acquisition | **(0.1)** | 0.4 |
| Effect of movements in exchange rates | **0.5** | (0.3) |
| **Balance at the end of the year** | **4.3** | 3.1 |

In determining the recoverability of a trade receivable, we consider any change in the receivable's credit quality from the date we initially granted credit up to the reporting date. The concentration of credit risk is limited, as our customer base is large and unrelated.

Receivables denominated in currencies other than Sterling comprise £29.5m denominated in US Dollars (2015: £21.5m), £11.3m denominated in Euros (2015: £11.8m) and £22.1m denominated in other currencies (2015: £26.3m).

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 21. Cash and cash equivalents

We hold cash and bank deposits which have a maturity of three months or less, to enable us to meet our short-term liquidity requirements.

**Accounting policies**

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand form an integral part of our cash management and are included in interest-bearing loans and borrowings less than one year. We only include them in cash and cash equivalents in the statement of cash flows.

| | 2016 £m | 2015 £m |
|---|---|---|
| Bank balances | **34.0** | 21.3 |

The carrying amount of these assets approximates their fair value.

Included within bank balances above is £5.8m (2015: £4.6m) which is subject to certain local restrictions, principally in China.

### 22. Trade and other payables

Our trade and other payables mainly consist of amounts we owe to our suppliers that have been invoiced or are accrued. They also include taxes and social security amounts due in relation to our role as an employer.

**Accounting policies**

Trade payables are not interest bearing and are stated at their nominal value.

| | 2016 £m | 2015 £m |
|---|---|---|
| Trade payables | **20.7** | 16.6 |
| Other payables, accrued expenses and deferred income | **40.0** | 37.6 |
| Other taxes and social security | **4.4** | 4.7 |
| | **65.1** | 58.9 |

Payables denominated in currencies other than Sterling comprise £25.2m denominated in US Dollars (2015: £17.5m), £9.0m denominated in Euros (2015: £8.9m) and £15.4m denominated in other currencies (2015: £15.3m). The carrying values of these liabilities are a reasonable approximation of their fair values.

### 23. Provisions

A provision is a liability recorded in the balance sheet, where uncertainty over the timing or amount that will be paid, and is therefore estimated. The main provisions we hold are in relation to legal and restructuring matters.

**Accounting policies**

We recognise a provision in the balance sheet when an event results in the Group having a current legal or constructive obligation, and it is probable that we will have to settle the obligation through an outflow of economic benefits. If the effect is material, we discount provisions to their present value.

| | Property lease provision £m | Other provisions £m | Total £m |
|---|---|---|---|
| Balance at 1 July 2014 | 0.5 | 0.9 | 1.4 |
| Additional provision in the year | 0.1 | 2.2 | 2.3 |
| Utilisation of provision | (0.3) | (0.8) | (1.1) |
| Release of provision | (0.2) | – | (0.2) |
| Balance at 30 June 2015 | 0.1 | 2.3 | 2.4 |
| Additional provision in the year | – | 0.8 | 0.8 |
| Utilisation of provision | – | (1.7) | (1.7) |
| Release of provision | – | (0.3) | (0.3) |
| **Balance at 30 June 2016** | **0.1** | **1.1** | **1.2** |

| | 2016 £m | 2015 £m |
|---|---|---|
| Current | **1.2** | 2.4 |

Other provisions mainly relate to legal (£0.5m) and restructuring (£0.4m) provisions. The timing and cash flows associated with the restructuring costs and a majority of legal claims are expected to be less than one year. However, for some legal claims the timing of cash flows may be long-term in nature. The property provision mainly represents the discounted future costs of properties (net of expected rental income) not occupied by the Group or sublet. The timing of the cash flow associated with property is dependent upon the remaining term of the associated lease.

## 24. Financial instruments

This note details our treasury management and financial risk management objectives and policies, as well as the exposure and sensitivity of the Group to credit, liquidity, interest and foreign exchange rate risk, and the policies in place to monitor and manage these risks.

**Financial risk management objectives**

The Group's Corporate Treasury function provides services to the business, co-ordinates our access to domestic and international financial markets, and monitors and manages the financial risks relating to the Group's operations, through internal risk reports that analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

We seek to minimise the effects of these risks by hedging them using derivative financial instruments. Our use of financial derivatives is governed by policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Board of Directors regularly reviews our compliance with policies and exposure limits. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Key financial risks and exposures are monitored through a monthly report to the Board of Directors, together with an annual Board review of corporate treasury matters.

**Financial risk**

The principal financial risks our activities expose us to are risks of changes in foreign currency exchange rates, interest rates and commodity prices. We use derivative financial instruments to manage our exposure to interest rate, foreign currency risk and commodity price risk, including:

- forward foreign exchange contracts, to hedge the exchange rate risk arising on the sale of goods and purchase of supplies in foreign currencies;
- interest rate swaps, to mitigate the risk of rising interest rates; and
- forward commodity contracts, to hedge commodity price risk.

**Accounting policies**

Financial instruments

Financial assets and liabilities, in respect of financial instruments, are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that provides a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Put option arrangements over non-controlling interest

The potential cash payments related to put options issued by the Group over the equity of subsidiary companies are accounted for as financial liabilities when such options may only be settled by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary.

The amount that may become payable under the option on exercise is initially recognised at present value within borrowings with a corresponding charge directly to equity. The charge to equity is recognised separately as written put options over non-controlling interest, adjacent to non-controlling interest in the net assets of consolidated subsidiaries.

Such options are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable; the charge arising is recorded as a financing cost. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

Derivative financial instruments and hedging activities

The fair value of interest rate swaps is the estimated amount that we would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the creditworthiness of the swap counterparties.

The fair values of forward exchange contracts and forward commodity contracts are their quoted market price at the balance sheet date, which is the present value of the quoted forward price.

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 24. Financial instruments continued

#### Cash flow hedges

Where a derivative financial instrument is designated as hedging the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, we recognise the effective part of any gain or loss on the instrument in equity, in the hedging reserve. We recognise any ineffective portion of the hedge immediately in the Group Income Statement.

If we hedge a forecast transaction that subsequently results in our recognising a financial asset or liability, we recycle in the Group Income Statement the associated gains and losses that we had recognised in equity. We do this in the same period or periods that the asset or liability affects the Group Income Statement, which are the periods when we recognise the interest income or expense.

If we expect a hedged forecast transaction to occur but the hedging instrument has expired, been sold, terminated or exercised, or we have revoked the designation of the hedge relationship, then the cumulative gain or loss at that point remains in equity and we recognise it in accordance with the above policy when the transaction occurs. If we no longer expect the hedged transaction to take place, we immediately recognise in the Group Income Statement the cumulative unrealised gain or loss recognised in equity.

#### Net investment hedges

Where we have designated a derivative financial instrument as hedging the variability of the net assets of an overseas subsidiary, which arises from the spot or forward exchange rate translation risk associated with the subsidiary's functional currency, we recognise the effective part of any gain or loss on the instrument directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Group Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or we revoke designation of the hedge relationship, the cumulative gain or loss at that point remains in equity until we dispose of the investment it relates to.

We only apply net investment hedge accounting in the Group Financial Statements.

**Capital risk management**

The Group manages its capital to ensure that Group entities can continue as a going concern, while maximising the return to shareholders by optimising our debt and equity balance. The Group's capital structure consists of debt, which includes the borrowings disclosed in note 25, cash and cash equivalents, and equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained earnings as disclosed in note 29.

**Gearing ratio**

The Group keeps its capital structure under review. The Group is not subject to externally imposed capital requirements. The gearing ratio at the year end was as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Debt (see note 25) | **123.7** | 93.1 |
| Cash and cash equivalents (see note 21) | **(34.0)** | (21.3) |
| Net debt (see note 30) | **89.7** | 71.8 |
| Equity | **368.1** | 305.1 |
| Net debt to equity ratio | **24%** | 24% |

Debt is defined as long and short-term borrowings, as detailed in note 25.

Equity includes all capital and reserves of the Group attributable to equity holders of the Parent.

**Categorises of financial instruments**

We have categorised financial instruments held at valuation into a three-level fair value hierarchy, based on the priority of the inputs to the valuation technique in accordance with IFRS 13. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, we base the category level on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety. We have estimated the fair values of the Group's outstanding interest rate swaps by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 13. We have not categorised any financial instruments as Level 1 or Level 3.

## 24. Financial instruments continued

| | Carrying value | |
|---|---|---|
| | 2016 £m | 2015 £m |
| **Financial assets** | | |
| Other investments | 3.6 | 0.2 |
| Trade receivables and other debtors, excluding prepayments (see note 20) | 72.8 | 71.4 |
| Cash and cash equivalents | 34.0 | 21.3 |
| Derivative instruments in non-designated hedge accounting relationships | 0.6 | 0.7 |
| Assets held for sale | 0.3 | 0.5 |
| **Financial liabilities** | | |
| Trade and other payables, excluding other taxes and social security (see note 22) | (60.7) | (54.2) |
| Derivative instruments in designated hedge accounting relationships | (0.7) | (0.1) |
| Loans and overdrafts (see note 25) | (119.9) | (89.6) |
| Leasing obligations (see note 26) | (3.8) | (3.5) |
| Derivative instruments in non-designated hedge accounting relationships | (0.5) | (0.1) |
| Put option over non-controlling interest | (11.4) | (10.0) |

**Foreign currency risk management**
We undertake transactions denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date were as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| US Dollar (including leases) | (89.1) | (73.4) | 1.0 | 4.3 |
| Euro | (9.4) | (4.2) | 2.2 | 0.3 |
| Brazilian Real | – | – | 0.1 | 0.1 |
| Chinese Yuan Renminbi | – | – | 5.3 | 5.3 |

**Foreign currency sensitivity analysis**
The Group is mainly exposed to movement in the US Dollar, Euro, Brazilian Real and Mexican Peso exchange rates.

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against these currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents our assessment of a significant change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. It includes external loans, as well as loans to foreign operations within the Group where the loan is denominated in a currency other than the lender or borrower's currency. A positive number below indicates an increase in profit when Sterling weakens against the relevant currency. A strengthening of Sterling against the relevant currency would produce an equal but opposite reduction in profit, and the balances below would be negative. The impact on other equity is minimal, due to the net investment hedging in place.

| | Euro currency impact | | US Dollar currency impact | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| **10% currency movement** | | | | |
| Profit or loss | 0.6 | 1.0 | 3.1 | 3.0 |

| | Brazilian Real currency impact | | Mexican Peso currency impact | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| **10% currency movement** | | | | |
| Profit or loss | 0.7 | 0.6 | 1.0 | 1.1 |

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 24. Financial instruments continued

**Forward foreign exchange contracts**

The Group's policy is to enter into forward foreign exchange contracts, to cover specific foreign currency payments and receipts. The following table details the forward foreign currency contracts outstanding as at the year end:

| | Average exchange rate | | Foreign currency | Contract value | | Fair value | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| **Outstanding contracts** | | | | | | | |
| Sell CNY | 9.07 | 9.31 | CNY | 0.1 | 0.3 | – | – |
| Sell PLN | 5.61 | 5.86 | PLN | 0.4 | 0.9 | – | – |
| Buy AUD | 1.93 | 2.01 | AUD | 1.7 | 1.0 | (0.1) | – |
| Buy MXN | 26.10 | – | MXN | 0.8 | – | – | – |
| Buy EUR | – | 1.40 | EUR | – | 0.7 | – | – |
| Buy USD/Sell CLP | 689 | – | CLP | 0.1 | – | – | – |
| Buy USD/Sell COP | 3017 | 2571 | COP | 0.2 | 0.8 | – | – |
| Buy USD/Sell EUR | 1.11 | 1.12 | EUR | 0.7 | 0.8 | – | – |
| Buy USD/Sell BRL | – | 3.14 | BRL | – | 2.0 | – | – |
| Buy USD/Sell ARS | – | 9.86 | ARS | – | 0.8 | – | (0.1) |
| Buy USD/Sell CNY | – | 6.13 | CNY | – | 1.0 | – | – |
| Buy MXN/Sell USD | 19.04 | 15.27 | MXN | 0.7 | 1.6 | – | (0.1) |
| Buy CAD/Sell USD | 1.30 | 1.23 | CAD | 0.6 | 1.5 | – | – |
| Buy PHP/Sell USD | 46.86 | 44.92 | PHP | 1.2 | 1.0 | – | – |
| Buy ARS/Sell USD | 14.25 | – | ARS | 0.1 | – | – | – |
| Buy EUR/Sell CHF | 1.10 | 1.05 | CHF | 0.3 | 0.2 | – | – |
| | | | | | | (0.1) | (0.2) |

**Interest rate risk management**

The Group is exposed to interest rate risk, as Group entities borrow funds at both fixed and floating interest rates. We manage this risk centrally, by maintaining an appropriate mix between fixed and floating rate borrowings, using interest rate swaps. We regularly review our hedging activities, to align with our interest rate views and defined risk appetite, thereby ensuring we apply optimal hedging strategies to minimise the adverse impact of fluctuations in interest expense through different interest rate cycles.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

**Interest rate sensitivity analysis**

We have determined the sensitivity analyses below, based on the Group's exposure to interest rates for both derivatives and non-derivative instruments, at the balance sheet date. For floating rate liabilities, we prepared the analysis assuming the liability outstanding at the balance sheet date was outstanding for the whole year. A 1.0% increase or decrease is used when reporting interest rate risk internally to key management personnel and is our assessment of a significant change in interest rates.

If interest rates had been 1.0% higher or lower and all other variables were held constant, the Group's profit for the year ended 30 June 2016 would decrease or increase by £0.5m (2015: decrease/increase by £0.5m). This impact is smaller than would otherwise be the case, due to the effects of fixed rate hedging.

**Interest rate swap contracts**

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts, calculated on agreed notional principal amounts. These contracts enable us to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate debt we hold. We determine the fair value of interest rate swaps at the reporting date by discounting the future cash flows, using the yield curves at the reporting date and the credit risk inherent in the contract. This fair value is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

## 24. Financial instruments continued

### Cash flow hedges

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

| Outstanding receive floating pay fixed contracts | Average contract fixed interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | 2016 % | 2015 % | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| **USD interest rate swaps** | | | | | | |
| Within one year | **0.68** | 0.61 | **15.0** | 25.4 | **(0.3)** | (0.1) |
| Two to five years | **1.10** | 0.68 | **82.3** | 12.7 | **(0.4)** | – |

The interest rate swaps settle on a quarterly basis. The corresponding floating rate on the interest rate swaps is 3 month LIBOR. We settle the difference between the fixed and floating interest rate on a net basis.

Interest rate swap contracts that exchange floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges, to reduce our cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and we recognise the amount deferred in equity in profit or loss, over the period that the floating rate interest payments on debt affect profit or loss.

### Commodity hedges

The Group hedges both feed and slaughter exposures by using the Chicago Mercantile Exchange ('CME') lean hog, corn, soybean meal and winter wheat commodity futures.

| Commodity hedge | Average price | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | 2016 US$ | 2015 US$ | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| **Open contracts from July 2016 to June 2017** | | | | | | |
| Lean hog futures | **0.71** | n/a | **9.0** | n/a | **(0.2)** | n/a |
| Corn | **3.99** | n/a | **(2.8)** | n/a | **(0.1)** | n/a |
| Soybean meal | **307** | n/a | **(1.8)** | n/a | **0.4** | n/a |
| Winter wheat | **5.07** | n/a | **(0.2)** | n/a | **–** | n/a |
| **Open contracts from July 2015 to June 2016** | | | | | | |
| Lean hog futures | **0.78** | 0.75 | **0.7** | 4.8 | **(0.1)** | 0.4 |
| Corn | **4.13** | 4.18 | **(0.2)** | (2.0) | **–** | 0.1 |
| Soybean meal | **310** | 320 | **(0.2)** | (1.5) | **0.1** | 0.1 |
| Winter wheat | **5.40** | 6.00 | **(0.1)** | (0.3) | **–** | – |
| | | | **4.4** | 1.0 | **0.1** | 0.6 |

### Credit risk management

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. We have a policy of only dealing with creditworthy counterparties. We regularly monitor our exposure and the credit ratings of our counterparties, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure on financial instruments is controlled by counterparty limits that the Board reviews and approves annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. We carry out ongoing credit evaluation of the financial condition of accounts receivable.

### Liquidity risk management

Ultimate responsibility for managing liquidity risk rests with the Board of Directors. We manage this risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

### Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities, excluding trade payables and other creditors. We have drawn up the table based on the undiscounted cash flows of financial liabilities, using the earliest date on which we can be required to pay. The table includes both interest and principal cash flows.

# Notes to the Group Financial Statements continued

For the year ended 30 June 2016

## 24. Financial instruments continued

| | Weighted average effective interest rate % | Less than 1 month £m | 1–3 months £m | 3 months to 1 year £m | 1–5 years £m | 5+ years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| Variable interest rate instruments | **1.7** | **5.2** | **0.3** | **2.3** | **125.7** | **–** | **133.5** |
| **2015** | | | | | | | |
| Variable interest rate instruments | 1.6 | 6.0 | 3.5 | 5.2 | 81.7 | – | 96.4 |

The following table details the Group's expected maturity for other non-derivative financial assets, excluding trade receivables and other debtors. We have drawn up the table based on the undiscounted contractual maturities of the assets, including interest we will earn on them, except where we expect the cash flow to occur in a different period.

| | Weighted average effective interest rate % | Less than 1 month £m | 1–3 months £m | 3 months to 1 year £m | 1–5 years £m | 5+ years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| Variable interest rate instruments | **0.38** | **34.0** | **–** | **–** | **–** | **–** | **34.0** |
| **2015** | | | | | | | |
| Variable interest rate instruments | 0.96 | 21.3 | – | – | – | – | 21.3 |

The Group has financing facilities with a total unused amount of £49.8m (2015: £51.1m) at the balance sheet date. We expect to meet our other obligations from operating cash flows and the proceeds of maturing financial assets. We expect to reduce the debt to equity ratio, as borrowings decrease through repayment from operating cash flows.

The following table details the Group's liquidity analysis for its derivative financial instruments. We have drawn up the table based on the undiscounted net cash outflows on derivative instruments that settle on a net basis and the undiscounted gross outflows on derivatives that require gross settlement. When the amount payable or receivable is not fixed, we have determined the amount disclosed by reference to the projected interest and foreign currency rates, as illustrated by the yield curves at the reporting date.

| | Less than 1 month £m | 1–3 months £m | 3 months to 1 year £m | 1–5 years £m | 5+ years £m | Total £m |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Interest rate swaps | **–** | **–** | **(0.5)** | **(0.7)** | **–** | **(1.2)** |
| **2015** | | | | | | |
| Interest rate swaps | – | – | (0.1) | – | – | (0.1) |

## 25. Loans and borrowings

The Group's borrowing for funding and liquidity purposes comes from a range of committed bank facilities.

**Interest-bearing loans and borrowings**

We initially recognise interest-bearing loans and borrowings at their fair value, less attributable transaction costs. After this initial recognition, we state them at amortised cost and recognise any difference between the cost and redemption value in the income statement over the borrowings' expected life, on an effective interest rate basis.

| | 2016 £m | 2015 £m |
|---|---|---|
| **Non-current liabilities** | | |
| Unsecured bank loans | **115.3** | 77.4 |
| Obligations under finance leases (see note 26) | **2.7** | 2.4 |
| | **118.0** | 79.8 |
| **Current liabilities** | | |
| Unsecured bank loans and overdrafts | **4.6** | 12.2 |
| Obligations under finance leases (see note 26) | **1.1** | 1.1 |
| | **5.7** | 13.3 |
| **Total interest-bearing liabilities** | **123.7** | 93.1 |

## 25. Loans and borrowings continued

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans and overdrafts were as follows:

| | Currency | Interest rate | 2016 £m | 2015 £m |
|---|---|---|---|---|
| Revolving credit facility and overdraft | GBP | 1.5% | 26.2 | 10.8 |
| Revolving credit facility, term loan and overdraft | USD | 1.6% | 86.0 | 73.1 |
| Revolving credit facility and overdraft | EUR | 0.7% | 6.2 | 3.5 |
| Finance lease liabilities | USD | 5.0% | 3.8 | 3.5 |
| Other unsecured bank borrowings | Other | 1.7% | 1.5 | 2.2 |
| **Total interest-bearing liabilities** | | | 123.7 | 93.1 |

The above revolving credit facilities are unsecured. Information about the Group's exposure to interest rate and foreign currency risk is shown in note 24.

| | 2016 £m | 2015 £m |
|---|---|---|
| **Loans and borrowings (excluding finance leases) comprise amounts falling due:** | | |
| In one year or less or on demand | 5.1 | 12.7 |
| In more than one year but not more than two years | – | 6.5 |
| In more than two years but not more than five years | 116.1 | 70.9 |
| | 121.2 | 90.1 |
| Less: unamortised issue costs | (1.3) | (0.5) |
| | 119.9 | 89.6 |
| **Current liabilities** | (4.6) | (12.2) |
| **Non-current liabilities** | 115.3 | 77.4 |

The Group's credit facilities at the balance sheet date, which were renewed in the year, now expire in February 2021, comprised a £65m multi-currency revolving credit facility and a US$140m revolving credit facility.

As part of its interest rate strategy, the Company has entered into interest rate swaps to hedge floating LIBOR rates. As a result, bank loan and overdrafts include borrowings of US$110m (£82.3m) fixed at 1.10%, excluding applicable bank margin.

Also included in the above is an unsecured agricultural development loan in the US of £0.1m (2015: £0.1m), which is interest free.

## 26. Finance lease liabilities

A finance lease is a commitment to make a payment in the future in relation primarily to plant and machinery and motor vehicles.

**Accounting policies**

We classify leases as finance leases whenever the lease terms transfer substantially all the risks and rewards of ownership to us. All other leases are operating leases.

We recognise the assets we hold under finance leases at their fair value or, if lower, at the present value of the minimum lease payments, each of which we determine at the start of the lease. We include our corresponding liability in the balance sheet, as a finance lease obligation.

We apportion lease payments between finance charges and a reduction in our lease obligation, so we achieve a constant rate of interest on the remaining liability. We recognise finance charges directly in the income statement, unless they are directly attributable to qualifying assets, in which case we capitalise them in accordance with our general policy on borrowing costs.

Finance lease liabilities are payable as follows:

| | Minimum lease payments 2016 £m | Interest 2016 £m | Principal 2016 £m | Minimum lease payments 2015 £m | Interest 2015 £m | Principal 2015 £m |
|---|---|---|---|---|---|---|
| Less than one year | 1.1 | – | 1.1 | 1.1 | – | 1.1 |
| Between one and five years | 2.7 | 0.2 | 2.9 | 2.4 | 0.2 | 2.6 |
| | 3.8 | 0.2 | 4.0 | 3.5 | 0.2 | 3.7 |

Finance lease liabilities are secured over the assets to which they relate. There are no other restrictions imposed by the lessor. The fair value of the leases is approximately equal to the carrying amount.

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 27. Retirement benefit obligations

The Group operates a number of defined contribution and defined benefit pension schemes covering many of its employees. The principal funds are the Milk Pension Fund and Dalgety Pension Fund in the UK, which are defined benefit schemes. The assets of these funds are held separately from the assets of the Group and are administered by trustees and managed professionally. We recognise that accounting for retirement benefit obligations is an area which includes critical accounting judgements and key sources of estimation uncertainty. See note 4.

**Accounting policies**

Defined contribution pension schemes

A number of our employees are members of defined contribution pension schemes. We charge contributions to the income statement as they become payable under the scheme rules. We show differences between the contributions payable and the amount we have paid as either accruals or prepayments in the balance sheet. The schemes' assets are held separately from those of the Group.

Defined benefit pension schemes

The Group operates defined benefit pension schemes for some of its employees. These schemes are closed to new members and to further accrual. We calculate our net obligation separately for each scheme, by estimating the amount of future benefit that employees have earned, in return for their service to date. We discount that benefit to determine its present value, and deduct the fair value of the plan's assets (at bid price). The liability discount rate we use is the market yield at the balance sheet date on high-quality corporate bonds, with terms to maturity approximating our pension liabilities. Qualified actuaries perform the calculations, using the projected unit method.

We recognise actuarial gains and losses in equity in the period in which they occur, through the Group Statement of Comprehensive Income. Actuarial gains and losses include the difference between the expected and actual return on scheme assets, and experience gains and losses on scheme liabilities.

The retirement benefit obligations include those relating to the Milk Pension Fund defined benefit scheme. Genus and the other participating employers are jointly and severally liable for the scheme's obligations. We account for our section of the scheme and our share of any orphan assets and liabilities, and provide for any amounts we believe we will have to pay under our joint and several liability. The joint and several liability also means we have a contingent liability for the scheme's obligations that we have not accounted for.

Under the joint and several liability, we initially recognise any changes in our share of orphan assets and liabilities in the income statement. After this initial recognition, any actuarial gains and losses in the orphan assets and liabilities are recognised directly into equity through the Group Statement of Changes in Equity, in the period in which they occur.

**Retirement benefit obligations**

The financial position of the defined benefit schemes as recorded in accordance with IAS 19 and IFRIC 14, are aggregated for disclosure purposes. The liability split by principal scheme is set out below.

| | 2016 £m | 2015 £m |
|---|---|---|
| The Milk Pension Fund – Genus's share | 34.3 | 54.3 |
| The Dalgety Pension Fund | – | – |
| Other retirement benefit obligations and other unfunded schemes | 10.2 | 8.8 |
| **Overall net pension liability** | **44.5** | 63.1 |

Overall, we expect to pay £7.1m (2016: £6.7m) in contributions to defined benefit plans in the 2017 financial year.

The defined benefit plans are administered by trustee boards that are legally separated from the Group. The trustee board of each pension fund consists of representatives who are employees, former employees or are independent from the Company. The boards of the pension funds are required by law to act in the best interest of the plan participants and are responsible for setting certain policies, such as investment and contribution policies, and the governance of the fund.

The defined benefit pension schemes exposes the Group to actuarial risks such as longer than expected longevity of members, lower than expected return on investments and higher than expected inflation, which may increase the liabilities or reduce the value of assets of the plans.

The UK pensions environment is regulated by The Pensions Regulator whose statutory objectives are set out in legislation and include promoting and improving understanding of the good administration of work-based pensions, protecting member benefits and regulating occupational defined benefit and contribution schemes. The Pensions Regulator is a non-departmental public body established under the Pensions Act 2004 and sponsored by the Department for Work and Pensions, operating within a legal regulatory framework set by the UK Parliament. The Pensions Regulator's statutory objectives and regulatory powers are described on its website at thepensionsregulator.gov.uk.

## 27. Retirement benefit obligations continued

All defined benefit schemes are UK registered as an occupational pension plan with HMRC and are subject to UK legislation and oversight from The Pensions Regulator. UK legislation requires that pension schemes are funded prudently and that valuations are undertaken at least every three years. Separate valuations are required for each scheme. Within 15 months of each valuation date, the plan trustees and the Group must agree any contributions required to ensure that the plan is fully funded over time on a suitably prudent measure.

Funding plans are individually agreed for each Group's defined benefits pension scheme with the respective trustees, taking into account local regulatory requirements.

The publication by the International Accounting Standards Board in June 2015 of its Exposure Draft of amendments to IFRIC 14, *'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'*, has provided additional clarity on the role of trustees' rights in an assessment of the recoverability of a surplus in an employee pension fund. The trustees of the defined benefits schemes have neither a unilateral right to wind up the plan and purchase annuities nor a unilateral right to improve members' benefits and consequently the Exposure Draft as currently proposed is not expected to have a material impact on the Group's results.

### The Milk Pension Fund ('MPF')

The MPF was previously operated by the Milk Marketing Board and was also open to staff working for Milk Marque Ltd (the principal employer, now known as Community Foods Group Limited), National Milk Records plc, First Milk Ltd, hauliers associated to First Milk Ltd, Dairy Farmers of Britain Ltd (which went into receivership in June 2009) and Milk Link Ltd.

We have accounted for our section of the scheme and our share of any orphan assets and liabilities, which together represent approximately 75% of the MPF (2015: 75%). Although the MPF is managed on a sectionalised basis, it is a 'last man standing scheme', which means that all participating employers are jointly and severally liable for all of the fund's liabilities. With effect from 30 June 2013, Genus's remaining active members ceased accruing benefits in the fund and became deferred pensioners.

On 11 January 2016, The trustees of the MPF agreed with a request from the employers to change the index used for pension and deferred pension increases from RPI to CPI. The members of the scheme were informed of this change on 17 February which is effective for increases starting in 2016. As a result of the change, Genus recorded a gain of £43.9m.

The most recent actuarial triennial valuation of the MPF was at 31 March 2015 and was carried out by professionally qualified actuaries. The valuation has been agreed by the trustees and is currently being reviewed by The Pensions Regulator before final sign off.

The principal actuarial assumptions adopted in the 2015 valuation were that:

- investment returns on existing assets would exceed fixed interest gilt yields by 1.1% per annum;
- CPI price inflation is expected to be 0.9% per annum lower than RPI price inflation; and
- pensions in payment and pensions in deferment would increase in future in line with CPI price inflation, subject to various minimum and maximum increases.

At 31 March 2015, the market value of the fund's assets was £403m. This represented approximately 87% of the value of the uninsured liabilities which were £465m at 31 March 2015.

The deficit in the fund as a whole, by reference to the 31 March 2015 valuation, was £62m (of which Genus's notional share was £47m). This shortfall is being addressed by additional contributions from the participating employers. Under the trustee prepared schedule of contributions, Genus will be required to make deficit repair contributions of £5.6m per annum commencing 31 March 2016, and rising thereafter by 3.4% per annum until 31 August 2022, in addition to funding operating expenses of the scheme. Genus has assessed its additional pension liability under IFRIC 14 by reference to this schedule of contributions, resulting in an amount of £14.9m (2015: £nil) being recognised in the Group Statement of Comprehensive Income.

### Dalgety Pension Fund ('DPF')

The most recent actuarial valuation of the DPF was at 31 March 2015 and carried out by professionally qualified actuaries.

The principal actuarial assumptions adopted in the 2015 valuation were that investment returns on existing assets would be 4.1% per annum before retirement and 2.2% per annum after retirement and that the annual increase in pensions in payment would be 3.3% per annum.

The market value of the available assets at 31 March 2015 was £31.6m. The value of those assets represents approximately 101% of the value of the uninsured liabilities, which were £31.3m at 31 March 2015. Under the funding agreement, the Company will not have to make deficit repair contributions.

The disclosures required under IAS 19 have been calculated by an independent actuary based on accurate calculations carried out as at 31 March 2015 and updated to 30 June 2016.

There is a £15.5m reserve held by the trustees of DPF against future unknown liabilities materialising. As the economic benefit to Genus of this amount is not certain, it is treated as a contingent asset.

In addition to the aggregate asset and liabilities disclosed, a bulk annuity policy was secured with an insurance company in July 1999, which matched the benefit entitlement of the almost all of the fund's current and deferred pension liabilities at that time. During the year, an additional bulk annuity policy was purchased by the scheme for £3.9m. The value of these policies and related liabilities at 30 June 2016 were £703m (2015: £694m).

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 27. Retirement benefit obligations continued

**Other defined benefit scheme in deficit**

The Group operates a closed defined benefit scheme for a small number of former employees of the National Pig Development Company Limited. The total market value of scheme assets and liabilities at 30 June 2016, under the provisions of IAS 19 were £5.2m (2015: £5.0m) and £6.5m (2015: £6.0m), respectively.

**Other unfunded schemes**

When the Group acquired Sygen International plc, it also acquired three unfunded defined benefit schemes and an unfunded retirement health benefit plan, which it now operates for the benefit of the previous Group's senior employees and executives.

The scheme liabilities for the three unfunded defined benefit schemes amount to £8.0m (2015: £6.7m), based on IAS 19's methods and assumptions. This amount is included within pension liabilities in the Group Balance Sheet. Interest on pension scheme liabilities amounted to £0.2m (2015: £0.2m).

The principal assumptions used to calculate the scheme liabilities were that the discount rate would be 2.8% (2015: 3.8%) and that inflation and pension payment increases would be 2.7% per annum (2015: 3.1%).

The scheme liabilities for the unfunded retirement health benefit plan amounted to £0.9m (2015: £1.1m), based on IAS 19's methods and assumptions. This amount is included within retirement benefit obligations in the Group Balance Sheet. Interest on plan liabilities amounted to £0.1m (2015: £0.1m).

The principal assumptions used to calculate the plan liabilities were that the discount rate would be 2.8% (2015: 3.8%) and that the long-term rate of medical expense inflation would be 6.7% (2015: 7.1%).

**Aggregated position of defined benefit schemes**

| | 2016 £m | 2015 £m |
|---|---|---|
| Present value of funded obligations (includes Genus's 75% share of MPF) | 347.9 | 378.3 |
| Present value of unfunded obligations | 8.9 | 7.8 |
| Total present value of obligations | 356.8 | 386.1 |
| Fair value of plan assets (includes Genus's 75% share of MPF) | (334.0) | (329.2) |
| Restrict recognition of asset (DPF) | 6.8 | 6.2 |
| Recognition of additional liability (MPF) | 14.9 | – |
| **Recognised liability for defined benefit obligations** | **44.5** | 63.1 |

Plan assets consist of the following:

| | 2016 £m | 2015 £m |
|---|---|---|
| Equities | 99.3 | 106.2 |
| Diversified growth funds | 57.6 | 56.9 |
| Liability driven investments | 32.7 | 25.4 |
| Gilts and corporate bonds | 95.7 | 93.2 |
| Cash | 1.7 | 3.6 |
| Other | 47.0 | 43.9 |
| | 334.0 | 329.2 |

Each of the defined benefits schemes manages risks through a variety of methods and strategies including equity protection, to limit downside risk in falls in equity markets, inflation and interest rate hedging.

Movement in the liability for defined benefit obligations

| | 2016 £m | 2015 £m |
|---|---|---|
| Liability for defined benefit obligations at the start of the year | 386.1 | 367.8 |
| Benefits paid by the plans | (18.3) | (14.5) |
| Current service costs and interest | 14.3 | 15.1 |
| Actuarial (gains)/losses recognised on fund liabilities arising from changes in demographic assumptions | (10.9) | 0.3 |
| Actuarial losses recognised on fund liabilities arising from changes in financial assumptions | 41.6 | 23.5 |
| Actuarial gains recognised on fund liabilities arising from experience (other) | (11.8) | (4.8) |
| Gains on curtailments and settlements | (1.4) | (1.8) |
| Change from RPI to CPI for benefit increases in the MPF | (43.9) | – |
| Exchange rate adjustment | 1.1 | 0.5 |
| **Liability for defined benefit obligations at the end of year** | **356.8** | 386.1 |

## 27. Retirement benefit obligations continued

Movement in plan assets

| | 2016 £m | 2015 £m |
|---|---|---|
| Fair value of plan assets at the start of the year | **329.2** | 314.6 |
| Administration expenses | **(0.7)** | (0.6) |
| Gains on curtailments and settlements | **(1.1)** | (1.4) |
| Contributions paid into the plans | **6.7** | 6.1 |
| Benefits paid by the plans | **(18.3)** | (14.5) |
| Interest income on plan assets | **12.1** | 12.8 |
| Actuarial gains recognised in equity | **6.1** | 12.2 |
| **Fair value of plan assets at the end of the year** | **334.0** | 329.2 |

Summary of movements in Group deficit during the year

| | 2016 £m | 2015 £m |
|---|---|---|
| Deficit in schemes at the start of the year | **(63.1)** | (58.2) |
| Administration expenses | **(0.7)** | (0.6) |
| Gains on curtailments and settlements | **0.3** | 0.4 |
| Change from RPI to CPI for benefit increases in the MPF | **43.9** | – |
| Contributions paid into the plans | **6.7** | 6.1 |
| Net pension finance cost | **(2.2)** | (2.3) |
| Actuarial loss recognised during the year | **(12.8)** | (6.8) |
| Movement in restriction of assets | **(0.6)** | (1.2) |
| Recognition of additional liability | **(14.9)** | – |
| Exchange rate adjustment | **(1.1)** | (0.5) |
| **Deficit in schemes at the end of the year** | **(44.5)** | (63.1) |

Amounts recognised in the Group Income Statement

| | 2016 £m | 2015 £m |
|---|---|---|
| Administrative expenses | **0.7** | 0.6 |
| Interest obligation | **14.3** | 15.1 |
| Interest income on plan assets | **(12.1)** | (12.8) |
| Gains on curtailments and settlements | **(0.3)** | (0.4) |
| Change from RPI to CPI for benefit increases in the MPF | **(43.9)** | – |
| | **(41.3)** | 2.5 |

The (income)/expense is recognised in the following line items in the Income Statement

| | 2016 £m | 2015 £m |
|---|---|---|
| Administrative expenses | **0.7** | 0.6 |
| Settlement gain in exceptional items | **(0.3)** | (0.4) |
| Change from RPI to CPI for benefit increases in the MPF in exceptional items | **(43.9)** | – |
| Net finance charge | **2.2** | 2.3 |
| | **(41.3)** | 2.5 |

Actuarial gains and losses recognised in the Group Statement of Comprehensive Income

| | 2016 £m | 2015 £m |
|---|---|---|
| Cumulative loss at the start of the year | **50.0** | 41.5 |
| Actuarial loss recognised during the year | **12.8** | 6.8 |
| Movement in restriction of assets | **0.6** | 1.2 |
| Recognition of additional liability | **14.9** | – |
| Exchange rate adjustment | **1.1** | 0.5 |
| **Cumulative loss at the end of the year** | **79.4** | 50.0 |

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 27. Retirement benefit obligations continued

Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

| | 2016 | 2015 |
|---|---|---|
| Discount rate | **2.8%** | 3.8% |
| Consumer Price Index (CPI) | **1.6%** | 2.0% |
| Retail Price Index (RPI) | **2.7%** | 3.1% |

The mortality assumptions used are consistent with those recommended by the schemes' actuaries and reflect the latest available tables, adjusted for the experience of the scheme where appropriate. For 2016, the mortality tables used are 97% of the SN2A tables, with birth year and 2014 CMI projections, subject to a long-term rate of improvement of 1.25% for males and females (2015: the mortality tables used are 90% of the SN1A tables, with birth year and 2011 CMI projections, subject to a long-term rate of improvement of 1.25% for males and females).

The following table shows the assumptions used for all schemes and illustrates the life expectancy of an average member retiring at age 65 at the balance sheet date and a member reaching age 65 in 20 years' time.

| | | 2016 Years | 2015 Years |
|---|---|---|---|
| Retiring at balance sheet date at age 65 | Male | **22.9** | 23.4 |
| | Female | **25.1** | 25.9 |
| Retiring at age 65 in 20 years' time | Male | **24.6** | 25.2 |
| | Female | **26.9** | 27.8 |

**Duration of benefit obligations**

The weighted average duration of the defined benefit obligations at 30 June 2016 was 17.5 years (2015: 17.5 years).

**Sensitivity analysis**

Measurement of the Group's defined benefit obligation is sensitive to changes in certain key assumptions. The sensitivity analysis below shows how a reasonably possible increase or decrease in a particular assumption would, in isolation, result in an increase or decrease in the present value of the defined benefit obligation as at 30 June 2016.

| | Discount rate | | Rate of inflation | | Life expectancy | |
|---|---|---|---|---|---|---|
| | Decrease by 0.25% £m | Increase by 0.25% £m | Decrease by 0.25% £m | Increase by 0.25% £m | Decrease by 1 year £m | Increase by 1 year £m |
| Increase/(decrease) in present value of defined obligation | 13.9 | (12.9) | (9.4) | 9.9 | (15.2) | 15.2 |

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation, as it is unlikely that changes in assumptions would occur in isolation of one another.

The sensitivities assume the fund's assets remain unchanged. However, in practice changes in interest rates and inflation will also affect the value of the fund's assets. The fund's investment strategy aims to hold matching assets which should move broadly in line with the liabilities of the funds so as to protect partially against changes in interest rates and inflation.

This sensitivity analysis has been prepared using the same method as adopted when adjusting results of the latest funding valuation to the balance sheet date. This is the same approach adopted in previous periods.

The history of experience adjustment is as follows:

| | 2016 £m | 2015 £m | 2014 £m | 2013 £m | 2012 £m |
|---|---|---|---|---|---|
| Present value of the defined benefit obligation | **356.8** | 386.1 | 367.8 | 355.2 | 204.7 |
| Fair value of plan assets | **(334.0)** | (329.2) | (314.6) | (294.1) | (143.7) |
| Restrict recognition of asset and recognition of additional liability | **21.7** | 6.2 | 5.0 | 3.9 | 6.3 |
| **Deficit in the plans** | **44.5** | 63.1 | 58.2 | 65.0 | 67.3 |
| Experience adjustments arising on plan liabilities (%) | **5.3** | 4.9 | 2.9 | 5.1 | 10.8 |
| Experience adjustments arising on plan assets (%) | **4.1** | 3.7 | 4.9 | 2.5 | (5.5) |

## 28. Share-based payments

We have a number of share plans used to award shares to Directors and senior management as part of their remuneration. A charge is recognised over the vesting period in the consolidated income statement to record the cost of these, based on the fair value of the award on the date of grant.

### Accounting policies

We recognise the fair value of share awards and options granted as an employee expense, with a corresponding increase in equity. We measure the fair value at the grant date and spread it over the vesting period of each option. We use a binomial valuation model to measure the fair value of options, and a Black-Scholes valuation model to measure the fair value of share awards. We adjust the amount we recognise as an expense, to reflect the estimated performance against non-market related conditions and the number of share awards and options that actually vest at the end of the vesting period.

The Group recognised a total share-based payment expense of £3.8m (2015: £1.4m), including National Insurance contributions of £0.4m (2015: £nil).

### Share awards

There are 1,122,448 conditional share awards outstanding at 30 June 2016. These conditional shares were awarded to Executive Directors and senior management under the 2004 Performance Share Plan on 10 September 2010, 7 December 2012, 26 September 2013 and 14 March 2014, and under the new 2014 Performance Share Plan on 20 November 2014 and 14 September 2015. In accordance with the plans' terms, participants have received a conditional annual award of shares or nil cost option awards which will normally vest after three years, with the proportion of the award vesting depending on growth in the Group's adjusted earnings per share. Further details of the plan's performance conditions are given in the Directors' Remuneration Report.

In the year ended 30 June 2016, awards were granted on 14 September 2015, with an aggregate fair value of £5,316,000. The fair value of services received in return for share awards granted is based on the fair value of share awards granted, measured using a Black-Scholes valuation model. At the date of grant, the fair value of a share awarded was £13.14, based on an expected dividend yield of 1.33%.

| | Number of awards 2016 | Number of awards 2015 |
|---|---|---|
| Outstanding at the start of year | 1,034,287 | 743,055 |
| Exercised during the year | (61,550) | – |
| Forfeited during the year | (254,818) | (135,947) |
| Granted during the year | 404,529 | 427,179 |
| **Outstanding at 30 June** | 1,122,448 | 1,034,287 |
| **Exercisable at 30 June** | 17,289 | 5,000 |

### Bonus and restricted stock share awards

In addition to the outstanding share awards above, there were 68,870 bonus and restricted stock share awards outstanding at 30 June 2016. The bonus shares were awarded to Executive Directors and senior management as part of the compulsory deferred bonus, and restricted stock share awards were granted to senior management in connection with recruitment. In accordance with the awards' terms, participants have received a conditional annual bonus award of shares or nil cost option awards, which will normally vest between one and three years, providing the participant is employed by the Group at that time.

In the year ended 30 June 2016, 39,775 bonus share awards were granted on 14 September 2015, with an aggregate fair value of £539,000, and 5,351 restricted stock share awards were granted in total on 18 December 2015 and 22 December 2015, with an aggregate fair value of £13,000.

| | Number of awards 2016 | Number of awards 2015 |
|---|---|---|
| Outstanding at the start of year | 43,547 | 9,270 |
| Exercised during the year | (19,370) | (24,044) |
| Forfeited during the year | (433) | – |
| Granted during the year | 45,126 | 58,321 |
| **Outstanding at 30 June** | 68,870 | 43,547 |
| **Exercisable at 30 June** | – | 433 |

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 28. Share-based payments continued

**Share options**

On 12 August 2004, the Group established a share option programme that entitles key management and other senior employees to purchase shares in the Company. Further grants on similar terms were offered to these employee groups as set out below. The terms and conditions of the grants are as set out below. All options are to be settled by physical delivery of shares and meet the criteria for being treated as equity settled.

| Employees entitled | Grant date | Number of instruments | Vesting conditions | Option exercise price | Contractual life of options |
|---|---|---|---|---|---|
| (1) 2004 Company share plan | 21 June 2006 | 5,300 | Exercisable | 439.75p | 10 years |
| (2) 2004 Company share plan | 21 September 2007 | 6,909 | Exercisable | 582.00p | 10 years |
| (3) 2004 Company share plan | 19 September 2008 | 11,717 | Exercisable | 775.67p | 10 years |
| (4) 2004 Company share plan | 15 September 2009 | 21,292 | Exercisable | 654.50p | 10 years |
| (5) 2004 Company share plan | 10 September 2010 | 44,399 | Exercisable | 729.83p | 10 years |
| (6) 2004 Company share plan | 9 September 2011 | 93,153 | Exercisable | 977.83p | 10 years |
| (7) 2004 Company share plan | 7 September 2012 | 78,838 | Exercisable | 1,334.00p | 10 years |
| (8) 2004 Company share plan | 26 September 2013 | 135,363 | 3 years' service* | 1,413.00p | 10 years |
| **Total share options** | | **396,971** | | | |

* The options can only be exercised if over a three-year period the average annual percentage growth in adjusted EPS exceeds a minimum of RPI +5% for the same period, unless provisions for 'good leavers' have been met where members retire, leave employment due to ill-health or are made redundant.

The number and weighted average exercise prices of share options are as follows:

| | Weighted average exercise price 2016 | Number of options 2016 | Weighted average exercise price 2015 | Number of options 2015 |
|---|---|---|---|---|
| Outstanding at the start of year | 1,119p | 612,821 | 1,062p | 723,156 |
| Forfeited during the year | 1,171p | (76,793) | 1,282p | (14,739) |
| SAR effected during the year | 1,038p | (94,801) | 697p | (45,880) |
| Exercised during the year | 932p | (44,256) | 632p | (49,716) |
| **Outstanding at 30 June** | 1,132p | 396,971 | 1,119p | 612,821 |
| **Exercisable at 30 June** | 986p | 261,608 | 675p | 109,774 |

The options at 30 June 2016 had a weighted average remaining contractual life of 5.4 years (2015: 6.4 years). No share options were granted during the year (2015: nil). The weighted average share price at the date of exercise during the year was £14.83p (2015: £13.69p).

### 29. Capital and reserves

Called up share capital is the number of shares in issue at their par value. A number of shares were issued in the year in relation to employee share schemes.

**Accounting policies**

Equity instruments issued by the Group are recorded at the amounts of the proceeds received, net of direct issuance costs.

**Own shares**

We include the transactions, assets and liabilities of the Group-sponsored Qualifying Employee Share Ownership Trust ('QUEST') in the Group Financial Statements. In particular, the trust's purchases of the Company's shares are deducted from shareholders' funds until they vest unconditionally with employees.

**Share capital**

| | 2016 Number | 2015 Number | 2016 £m | 2015 £m |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| Ordinary shares of 10 pence | 61,012,703 | 60,968,447 | 6.1 | 6.1 |

The holders of ordinary shares are entitled to receive dividends, as declared from time to time.

The movement in share capital for the period was as follows:

| | 2016 Number | 2015 Number | 2016 £m | 2015 £m |
|---|---|---|---|---|
| Issued under the Executive Share Option Plan | 44,256 | 49,716 | – | – |

## 29. Capital and reserves continued

Shares issued under share option plans were issued at option prices as follows:

| | 2016 Number | Price | 2015 Number | Price |
|---|---|---|---|---|
| Executive Share Option Plan | – | 310.50p | 11,454 | 310.50p |
| | 4,992 | 440.00p | – | – |
| | 527 | 582.00p | – | 582.00p |
| | – | 776.00p | 531 | 776.00p |
| | 629 | 654.50p | 899 | 654.50p |
| | 4,860 | 729.83p | 36,832 | 729.83p |
| | 26,799 | 977.83p | – | 977.83p |
| | 6,449 | 1,334.00p | – | – |
| | 44,256 | | 49,716 | |

### Reserve for own shares

The Company's shares are held by a Qualifying Employee Share Ownership Trust, which is an employee benefit trust established to facilitate the operation of our long-term incentive scheme for senior management. The reserve amount represents the deduction in arriving at shareholders' funds for the consideration the trust paid for the Company's shares, which had not vested unconditionally at the balance sheet date. The number and market value of the ordinary shares held by the employee benefit trust and the QUEST were:

| | 2016 Number | 2015 Number | 2016 £m | 2015 £m |
|---|---|---|---|---|
| Shares allocated but not vested | 85,075 | 146,625 | 1.3 | 2.1 |
| Unallocated shares | 92,334 | 92,334 | 1.5 | 1.3 |
| | 177,409 | 238,959 | 2.8 | 3.4 |

The shares have a nominal value of £17,741 (2015: £23,896).

### Translation reserve

The translation reserve comprises all foreign currency differences arising from translating the financial statements of our foreign operations, as well as from translating financial instruments (and any related tax effect) that hedge the Company's net investment in a foreign subsidiary. In addition, translation gains, losses and the related tax arising on a US Dollar denominated inter-Company loan to the Group's operations in the US are recorded in the translation reserve as fully effective.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of taxation.

### Hedging and translation reserves

| | Hedging reserve £m | Translation reserve £m |
|---|---|---|
| **Balance at 30 June 2014** | – | (12.1) |
| Exchange differences on translation of overseas operations | – | 14.8 |
| Loss recognised on net investment hedges | – | (6.1) |
| Income tax related to net gains recognised in other comprehensive income | – | (6.7) |
| **Balance at 30 June 2015** | – | (10.1) |
| Exchange differences on translation of overseas operations | – | 77.8 |
| Loss recognised on net investment hedges | – | (13.3) |
| Loss recognised on cash flow hedges – interest swaps | (0.7) | – |
| Income tax related to net gains recognised in other comprehensive income | 0.1 | (16.9) |
| **Balance at 30 June 2016** | **(0.6)** | **37.5** |

# Notes to the Group Financial Statements continued

For the year ended 30 June 2016

## 30. Notes to the cash flow statement

| | 2016 £m | 2015 £m |
|---|---|---|
| Profit for the year | **50.3** | 40.5 |
| Adjustment for: | | |
| Net IAS 41 valuation movement on biological assets | **17.1** | (24.9) |
| Amortisation of acquired intangible assets | **6.1** | 6.1 |
| Share-based payment expense | **3.8** | 1.4 |
| Share of profit of joint ventures and associates | **(6.9)** | (2.9) |
| Finance costs (net) | **4.6** | 4.6 |
| Income tax expense | **10.6** | 17.3 |
| Exceptional items | **(36.3)** | 5.1 |
| Adjusted operating profit from continuing operations | **49.3** | 47.2 |
| Depreciation of property, plant and equipment | **7.9** | 6.3 |
| (Gain)/loss on disposal of plant and equipment | **(0.2)** | 0.4 |
| (Gain)/impairment on asset held for sale | **(0.2)** | 0.3 |
| Amortisation of intangible assets | **0.9** | 0.6 |
| Earnings before interest, tax, depreciation and amortisation | **57.7** | 54.8 |
| Exceptional item cash | **(4.7)** | (4.7) |
| Other movements in biological assets and harvested produce | **(3.8)** | 1.9 |
| (Decrease)/increase in provisions | **(1.2)** | 1.0 |
| Additional pension contributions in excess of pension charge | **(6.1)** | (6.1) |
| Other | **0.3** | (0.4) |
| Operating cash flows before movement in working capital | **42.2** | 46.5 |
| Increase in inventories | **(0.7)** | (0.6) |
| Decrease in receivables | **2.6** | 0.6 |
| (Decrease)/increase in payables | **(0.8)** | 4.2 |
| Cash generated by operations | **43.3** | 50.7 |
| Interest received | **0.1** | 0.2 |
| Interest and other finance costs paid | **(1.6)** | (2.2) |
| Cash flow from derivative financial instruments | **0.1** | (1.2) |
| Income taxes paid | **(11.9)** | (12.7) |
| **Net cash from operating activities** | **30.0** | 34.8 |

### Analysis of net debt

| | At 1 July 2015 £m | Net cash flows £m | Foreign exchange £m | Non-cash movements £m | At 30 June 2016 £m |
|---|---|---|---|---|---|
| Cash and cash equivalents | 21.3 | 10.7 | 2.0 | – | **34.0** |
| Interest-bearing loans – current | (12.2) | 8.6 | (2.0) | 1.0 | **(4.6)** |
| Obligation under finance leases – current | (1.1) | 1.9 | (0.3) | (1.6) | **(1.1)** |
| | (13.3) | 10.5 | (2.3) | (0.6) | **(5.7)** |
| Interest-bearing loans – non-current | (77.4) | (24.9) | (13.0) | – | **(115.3)** |
| Obligation under finance lease – non-current | (2.4) | – | (0.3) | – | **(2.7)** |
| | (79.8) | (24.9) | (13.3) | – | **(118.0)** |
| **Net debt** | (71.8) | (3.7) | (13.6) | (0.6) | **(89.7)** |

Included within non-cash movements is £1.6m in relation to new finance leases.

## 31. Operating leases

The Group has entered into non-cancellable commercial arrangements on certain properties, plant, motor vehicles and equipment.

**Accounting policies**

For operating leases, we charge the rentals payable, and any incentives we receive to enter into an operating lease, to the income statement on a straight-line basis over the lease term.

Total of future minimum lease payments under non-cancellable operating leases which expire within:

| | 2016 £m | 2015 £m |
|---|---|---|
| Less than one year | 1.3 | 1.3 |
| Between one and five years | 10.7 | 10.5 |
| More than five years | 9.2 | 11.1 |
| | 21.2 | 22.9 |

The leases have various terms and renewal rights. There are no other restrictions imposed by these lease agreements.

## 32. Capital commitments

At 30 June 2016, outstanding contracted capital expenditure amounted to £0.7m (2015: £0.8m).

## 33. Contingencies

Contingent liabilities are potential future cash outflows, where the likelihood of payments is considered more than remote but is not considered probable or cannot be measured reliably.

The retirement benefit obligations referred to in note 27 include obligations relating to the Milk Pension Fund defined benefit scheme. Genus, together with other participating employers, is joint and severally liable for the scheme's obligations. Genus has accounted for its section and its share of any orphan assets and liabilities, collectively representing approximately 75% of the MPF. As a result of the joint and several liability, Genus has a contingent liability for the scheme's obligations that it has not accounted for.

## 34. Directors and key management compensation

This note details the total amounts earned by the Company's Directors and members of the Executive Committee.

**Key management compensation (including Directors)**

| | 2016 £m | 2015 £m |
|---|---|---|
| Salaries and short-term employee benefits | 5.8 | 5.7 |
| Post-employment benefits | 0.3 | 0.3 |
| Share-based payment expense | 2.1 | 0.4 |
| | 8.2 | 6.4 |

**Directors**

Details of Directors' compensation are included in the Directors' Remuneration Report.

**Other transactions with key management personnel**

Other than remuneration, there were no transactions with key management personnel.

## 35. Group entities

In accordance with section 409 of the Companies Act 2006 a list of subsidiaries and joint ventures and associates as at 30 June 2016 is set out below. All subsidiary undertakings are subsidiary undertakings of their immediate parent undertaking(s) unless otherwise indicated.

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 35. Group entities continued

**Nature of business**

Bovine

| Name of undertaking | Country of incorporation | Direct/indirect Group interest | % of share capital/ voting rights held by Group companies |
|---|---|---|---|
| ABS Argentina S.A. | Argentina | Direct | 100% |
| ABS Chile Limitada | Chile | Direct | 100% |
| ABS Genetics South Africa (Pty) Ltd | South Africa | Indirect | 100% |
| ABS Global (Canada) Inc. | Canada | Indirect | 100% |
| ABS Global, Inc. | United States | Indirect | 100% |
| ABS Italia S.r.l. | Italy | Indirect | 100% |
| ABS México, S.A. de C.V. | Mexico | Direct | 100% |
| ABS Progen Ireland Limited | Ireland | Indirect | 100% |
| Bovec SAS | France | Indirect | 100% |
| Chitale Genus ABS (India) Private Limited | India | Indirect | 50%* |
| Genus ABS Colombia SAS | Colombia | Indirect | 100% |
| Genus Australia Pty Ltd | Australia | Indirect | 100% |
| Genus (Beijing) International Trade Co., Ltd. | China | Indirect | 100% |
| Genus Breeding India Private Limited | India | Indirect | 100% |
| Genus Breeding Limited | United Kingdom | Direct | 100% |
| “Genus Ukraine” LLC | Ukraine | Indirect | 100% |
| In Vitro Brasil México, S.A. de C.V. | Mexico | Indirect | 99% |
| In Vitro Brasil S.A. | Brazil | Indirect | 51% |
| In Vitro Colombia S.A.S. | Colombia | Indirect | 51% |
| In Vitro Russia LLC | Russia | Indirect | 50% |
| In Vitro Santa Catarina Produção de Embriões S.A. | Brazil | Indirect | 50% |
| IVB USA, Inc. | United States | Indirect | 51% |
| Pecplan ABS Imp. e Exp. Ltda. | Brazil | Indirect | 100% |
| St Jacobs Animal Breeding Corp. | United States | Indirect | 100% |
| ZAP In Vitro Mozambique, Limitada | Mozambique | Indirect | 80% |
| Zitery S.A | Uruguay | Indirect | 100% |

Porcine

| Name of undertaking | Country of incorporation | Direct/indirect Group interest | % of share capital/ voting rights held by Group companies |
|---|---|---|---|
| Agricola PIC Andina Limitada | Chile | Indirect | 100% |
| Agroceres PIC Genética de Suínos Ltda | Brazil | Indirect | 49%* |
| Agroceres PIC Suínos Ltda | Brazil | Indirect | 49%* |
| Birchwood Genetics, Inc. | United States | Indirect | 100% |
| Genetiporc International Minnesota, LLC | United States | Indirect | 100% |
| Génétiporc México, S.A. de C.V. | Mexico | Indirect | 100% |
| Genetiporc USA, LLC | United States | Indirect | 100% |
| Humei Pig Improvement Company | China | Indirect | 50%* |
| HY-CO Hybridschweine-Cooperations GmbH | Germany | Indirect | 50%* |
| LLC PIC Genetics | Russia | Indirect | 100% |
| PIC (Zhangjiagang) Pig Improvement Co., Ltd. | China | Indirect | 100% |
| PIC Andina S.A. | Chile | Indirect | 100% |
| PIC Andina Venezuela S.A. | Venezuela | Indirect | 100% |
| PIC Canada Ltd. | Canada | Indirect | 100% |
| PIC France SA | France | Indirect | 100% |
| PIG Datendienst GmbH | Germany | Indirect | 50%* |
| Pig Improvement Company de México, S. de R.L. de C.V. | Mexico | Indirect | 100% |
| PIG Improvement Company Deutschland GmbH | Germany | Indirect | 100% |
| Pig Improvement Company España, S.A. | Spain | Indirect | 100% |
| Pig Improvement Company UK Limited | United Kingdom | Indirect | 100% |
| PIC Italia S.r.l. | Italy | Indirect | 50% |
| PIC Philippines, Inc. | Philippines | Indirect | 100% |
| PIC Polska Sp. z o.o. | Poland | Indirect | 100% |
| PIC Romania S.R.L. | Romania | Indirect | 100% |
| PIC USA, Inc. | United States | Indirect | 100% |
| Reprodutores PIC, Lda | Portugal | Indirect | 100% |
| Shaanxi PIC Pig Improvement Co., Ltd. | China | Indirect | 100% |
| Xianyang Yongxiang Agriculture Technology Co., Ltd. | China | Indirect | 49%* |

* Associated undertakings including joint venture interests.

## 35. Group entities continued

### Other

| Name of undertaking | Country of incorporation | Direct/indirect Group interest | % of share capital/ voting rights held by Group companies |
|---|---|---|---|
| Promar International Limited | United Kingdom | Direct | 100% |
| Accounting & Managerial Services S. de R.L. de C.V. | Mexico | Indirect | 100% |
| Génétiporc Servicios Tecnicos S.A. de C.V. | Mexico | Indirect | 100% |
| PIC Servicios Agropecuarios, S.A. de C.V. | Mexico | Indirect | 100% |
| GIL Finance S.à.r.l. | Luxembourg | Indirect | 100% |
| ABS International, Inc. | United States | Indirect | 100% |
| ABS Pecplan Ltda. | Brazil | Direct | 100% |
| Brazilian Holdings Limited | United Kingdom | Indirect | 100% |
| Fyfield (SM) Limited | United Kingdom | Indirect | 100% |
| Fyfield Holland B.V. | Netherlands | Indirect | 100% |
| Genus Animal Health Limited | United Kingdom | Direct | 100% |
| Genus Investments Limited | United Kingdom | Direct | 100% |
| PIC (UK) Limited | United Kingdom | Indirect | 100% |
| PIC Do Brasil Empreendimentos e Participações Ltda. | Brazil | Indirect | 100% |
| PIC Fyfield Limited | United Kingdom | Indirect | 100% |
| Pig Improvement Company Overseas Limited | United Kingdom | Indirect | 100% |
| Premium Genetics (UK) Limited | United Kingdom | Indirect | 100% |
| Premium Genetics Limited | Ireland | Indirect | 100% |
| Sygen, Inc. | United States | Indirect | 100% |
| Sygen International Limited | United Kingdom | Direct | 100% |
| Agence Spillers N.V. | Belgium | Indirect | 100% |
| Bellapais Farm Limited | Cyprus | Indirect | 34.1%* |
| Bellapais Hatcheries Limited | Cyprus | Indirect | 34.1%* |
| BioScience Network Limited | United Kingdom | Direct | 100% |
| Brazilian Properties Limited | United Kingdom | Direct | 100% |
| Busby Participações Ltda. | Brazil | Indirect | 100% |
| Cannavarro Participações Ltda. | Brazil | Indirect | 100% |
| Dalco Exportadora Ltda. | Brazil | Indirect | 100% |
| Dalgety Pension Trust Limited | United Kingdom | Indirect | 100% |
| Elmira ABC Ltd. | Canada | Indirect | 100% |
| Fyfield Dormant | United Kingdom | Indirect | 100% |
| Fyfield Ireland Limited | Ireland | Indirect | 100% |
| Genus Americas, Inc. | United States | Indirect | 100% |
| Genus Consulting Limited | United Kingdom | Direct | 100% |
| Genus Quest Trustees Limited | United Kingdom | Direct | 100% |
| Genus Trustees Limited | United Kingdom | Direct | 100% |
| National Pig Development Company Limited | United Kingdom | Indirect | 100% |
| PIC Benelux B.V. | Netherlands | Indirect | 100% |
| Pig Improvement Company Far East Limited | Hong Kong | Indirect | 100% |
| Pigtales Limited | United Kingdom | Indirect | 100% |
| Progen Ltd | United Kingdom | Indirect | 100% |
| Skogluno Participações Ltda. | Brazil | Indirect | 100% |
| Spedivet Limited | United Kingdom | Indirect | 100% |
| Spillers Limited | United Kingdom | Indirect | 100% |
| Spillers Overseas Limited | United Kingdom | Indirect | 100% |
| Spratts GmbH | Germany | Indirect | 100% |
| SyAqua México, S. de R.L. de C.V. | Mexico | Indirect | 100% |
| Sygen Investimentos Ltda. | Brazil | Indirect | 100% |
| Usicafé SA | Switzerland | Indirect | 100% |

* Associated undertakings including joint venture interests.

# Notes to the Group Financial Statements continued

## For the year ended 30 June 2016

### 36. Acquisition of subsidiaries

We completed the purchase of St Jacobs Animal Breeding Corp. during the year.

**Accounting policies**

Business combinations

We use the purchase method to account for all business combinations. The cost of acquisition is the aggregate of the fair value at the date of exchange of assets we give, liabilities we incur or assume, and equity instruments we issue in exchange for control of the acquiree. We recognise acquisition related costs in the profit and loss as we incur them.

We recognise the acquiree's identifiable assets, liabilities and contingent liabilities, which meet the conditions for recognition under IFRS 3, at their fair values at the acquisition date. The exceptions are non-current assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 *'Non-Current Assets Held for Sale and Discontinued Operations'*, which we recognise and measure at fair value less costs to sell.

Acquisition of interests from non-controlling shareholders

In transactions with non-controlling parties that do not result in a change in control, the difference between the fair value of the consideration paid or received and the amount by which the non-controlling interest is adjusted is recognised in equity.

On 31 March 2016, the Group acquired 100% of the share capital of St Jacobs Animal Breeding Corp. (St Jacobs), a bovine breeding company based in Vermont, US. St Jacobs' core capabilities are around the ability to identify and source genetics that target the Type or show cattle orientated segment of the dairy market.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

| | £m |
|---|---|
| Intangible assets identified | |
| – Trade name | **0.7** |
| Biological assets | **1.9** |
| Inventory | **0.1** |
| Financial liabilities | **(1.1)** |
| Total identifiable assets | **1.6** |
| Goodwill (note 14) | **1.9** |
| **Total consideration** | **3.5** |

| | |
|---|---|
| Satisfied by: | |
| Net cash outflow arising on acquisition of subsidiary | **3.5** |

The goodwill of £1.9m arising from the acquisition consists largely of future growth and synergies expected from combining the acquired operations with existing Genus operations. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition and integration related costs included within exceptional items amount to £0.1m.

St Jacobs contributed no revenue and £0.1m profit to the Group for the period between the date of acquisition and the balance sheet date.

If the acquisition of St Jacobs had been completed on the first day of the financial period, Group revenues and Group profit would have been no increase and £0.7m, respectively.

### 37. Post balance sheet events

On 1 August 2016, the litigation commenced against Inguran, LLC (aka Sexing Technologies ('ST')). See note 7. On 10 August 2016, the jury determined that the Company and ABS had proved that ST had wilfully maintained monopoly power in the market for sexed bovine semen processing in the US since July 2012, but had not proved that they had suffered injury to date as a result. On 11 August 2016, the jury also determined that: (i) ST's '987 and '092 patents were valid and infringed; and (ii) that ABS had materially breached the confidentiality obligations under the 2012 semen sorting agreement between the parties. On 12 August 2016, the jury determined that: (i) the Company and ABS should pay ST an up-front payment of US$750,000 and an ongoing royalty of US$1.25 per straw on commercialisation of the GSS technology for the use of ST's '987 patent; (ii) the Company and ABS should pay ST an up-front payment of US$500,000 and ongoing royalty of US$0.50 per straw for the use of ST's '092 patent; and (iii) ABS had materially breached the confidentiality obligations under the 2012 semen sorting agreement between the parties and damages were determined to be US$750,000.

In response to the verdicts reached the Company and ABS has sought an injunction from the Court to allow, among other things, ABS to terminate the 2012 semen sorting agreement and to provide relief from the restrictive provisions under that agreement. The parties have also commenced the Court briefing on post-trial motions. The Company and ABS has sought, among other things, judgement as a matter of law that the '987 patent is invalid and that the '092 patent is not infringed, or alternatively a new trial on the patent claims. The Group plans to commercialise its sexed semen technology in the US and globally and introduce competition into the market.

On 1 September 2016, we formed De Novo Genetics, a 51% majority-owned Holstein breeding strategic partnership, with De-Su Holsteins, LLC, the world's leading independent Holstein breeder, for an initial and deferred cash consideration of £5.7m (US$7.5m), and performance related deferred consideration which will not exceed £1.5m (US$2m). De Novo will further accelerate the proportion of bulls Genus produces internally by combining ABS's and De-Su's elite Holstein breeding programmes. This will gives us greater control of the genetics we need in order to create differentiated solutions that help commercial dairy farmers increase profitability through improved herd productivity, health and efficiency.

### 38. Non-controlling interest

| | 2016 £m | 2015 £m |
|---|---|---|
| Non-controlling interest | 5.0 | 4.3 |
| Put option over non-controlling interest (see note 24) | (11.4) | (10.0) |
| **Total non-controlling interest** | **(6.4)** | (5.7) |

Summarised financial information in respect of each of the Group's subsidiaries that has a material non-controlling interest is set out below. The summarised financial information below represents amounts before intra-Group eliminations.

**IVB Group**

| | 2016 £m | 2015 £m |
|---|---|---|
| Current assets | 4.6 | 3.9 |
| Non-current assets | 5.4 | 4.4 |
| Current liabilities | (2.1) | (2.5) |
| **Net assets** | **7.9** | 5.8 |
| Equity attributable to owners of the Company | (3.2) | (1.7) |
| Non-controlling interest for IVB Group | 4.7 | 4.1 |
| Other non-controlling interest | 0.3 | 0.2 |
| **Non-controlling interest** | **5.0** | 4.3 |

During the year £0.4m of dividends were paid to non-controlling interests (2015: £nil).

# Parent Company Balance Sheet

## As at 30 June 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 41 | **2.4** | 0.5 |
| Tangible assets | 42 | **0.7** | 0.3 |
| Investments in subsidiaries | 43 | **82.4** | 85.4 |
| | | **85.5** | 86.2 |
| **Current assets** | | | |
| Debtors | 44 | **466.4** | 457.1 |
| Cash at bank and in hand | | **–** | – |
| | | **466.4** | 457.1 |
| Creditors: amounts falling due within one year | 46 | **(291.3)** | (302.6) |
| **Net current assets** | | **175.1** | 154.5 |
| **Total assets less current liabilities** | | **260.6** | 240.7 |
| Creditors: amounts falling due after more than one year | 47 | **(116.1)** | (77.3) |
| **Net assets** | | **144.5** | 163.4 |
| **Capital and reserves** | | | |
| Called up share capital | 50 | **6.1** | 6.1 |
| Share premium account | 50 | **112.3** | 112.2 |
| Own shares | 50 | **(0.1)** | (0.1) |
| Profit and loss account | 50 | **26.8** | 45.2 |
| Hedging reserve | 50 | **(0.6)** | – |
| **Shareholders' funds** | 50 | **144.5** | 163.4 |

The Financial Statements were approved and authorised for issue by the Board of Directors on 7 September 2016.

Signed on behalf of the Board of Directors

**Karim Bitar**
**Chief Executive**

**Stephen Wilson**
**Group Finance Director**

Company number: 02972325

# Parent Company Statement of Changes in Equity

## For the year ended 30 June 2016

| | Called up share capital £m | Share premium account £m | Own shares £m | Profit and loss account £m | Hedging reserve £m | Total equity £m |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2014** | 6.1 | 112.2 | (0.1) | 42.7 | – | 160.9 |
| Total comprehensive income for the year | – | – | – | 12.1 | – | 12.1 |
| Dividends | – | – | – | (11.1) | – | (11.1) |
| Share-based payment expense, net of tax | – | – | – | 1.5 | – | 1.5 |
| **Balance at 30 June 2015** | 6.1 | 112.2 | (0.1) | 45.2 | – | 163.4 |
| Total comprehensive loss for the year | – | – | – | (9.3) | – | (9.3) |
| Shares issued | – | 0.1 | – | – | – | 0.1 |
| Dividends | – | – | – | (12.2) | – | (12.2) |
| Share-based payment expense, net of tax | – | – | – | 3.1 | – | 3.1 |
| Fair value of movement on cash flow hedges, net of tax | – | – | – | – | (0.6) | (0.6) |
| **Balance at 30 June 2016** | **6.1** | **112.3** | **(0.1)** | **26.8** | **(0.6)** | **144.5** |

For information on dividends (see note 13), cash flow hedges (see note 24) and share-based payment expense (see note 28).

# Notes to the Parent Company Financial Statements

For the year ended 30 June 2016

## 39. Accounting information and policies

**Basis of preparation**

The Parent Company Financial Statements have been prepared in accordance with Financial Reporting Standard 101, *'Reduced Disclosure Framework'* ('FRS 101') and the Companies Act 2006 (the 'Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

For all periods up to and including the year ended 30 June 2015, the Company prepared its financial statements in accordance with applicable United Kingdom Generally Accepted Accounting Policies ('UK GAAP').

The Company Financial Statements have been prepared using the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities and in accordance with the UK Companies Act 2006. The Financial Statements have been prepared on a going concern basis as set out in note 1 of the Consolidated Financial Statements of Genus plc. The accounting policies set out below and stated in the relevant notes have been applied consistently to all periods presented in these Financial Statements.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 1 July 2014. The Company has notified its shareholders in writing about the disclosure exemptions used by the Company in these Financial Statements, and no objections were received.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. Other than a £0.5m reclassification of software assets from tangible fixed assets to intangible fixed assets, this transition is not considered to have a material effect on the Financial Statements and therefore no transitional note has been prepared.

The Company will continue to prepare its Financial Statements in accordance with FRS 101 until such time as it notifies shareholders of any change to its chosen accounting framework.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, business combinations, financial instruments, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards issued not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the Consolidated Financial Statements of Genus plc.

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own income statement in this Annual Report.

**Critical accounting judgements and key sources of estimation uncertainty**

The preparation of Company Financial Statements in conformity with FRS 101 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the Company Financial Statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key area of judgement that has the most significant effect on the amounts recognised in the financial statements is the review for impairment of investment carrying values and valuation of share-based payments.

**Significant accounting policies applied in the current reporting period that relate to the Financial Statements as a whole**

### Taxation

We provide for current tax, including UK corporation tax and foreign tax, at the amounts we expect to pay or recover, using the tax rates and the laws enacted or substantively enacted at the balance sheet date.

### Pensions

A number of our employees are members of defined contribution pension schemes. We charge contributions to profit and loss as they become payable under the schemes' rules. We show differences between the contributions payable and the amounts actually paid as either accruals or prepayments in the balance sheet. The schemes' assets are held separately from those of the Company.

Certain former employees of the Company are members of one of the Group's defined benefit pension schemes, further details of which are given in note 27 of the Group Financial Statements. The schemes are all multi-employer defined benefit schemes, whose assets and liabilities are held independently from the Group but within their sponsored Group company.

### Foreign currencies

We record transactions in foreign currencies at the rate ruling at the transaction date or at the contracted rate, if the transaction is covered by a forward foreign currency contract. We retranslate monetary assets and liabilities denominated in foreign currencies at the prevailing rate of exchange at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the income statement.

## 39. Accounting information and policies continued

### Own shares

The Company has adopted FRS 101, which requires us to recognise the assets and liabilities associated with the Company's investment in its own shares in the Company's Financial Statements, where there is de facto control of the assets and liabilities.

The Company's own shares held by a Qualifying Employee Share Ownership Trust remain deducted from shareholders' funds until they vest unconditionally with employees.

### Employee share schemes

The Company's Executive Directors and Chief Operating Officers receive part of their remuneration in the form of share awards, which vest upon meeting performance criteria over a three-year period.

We measure the cost of these awards by reference to the shares' fair value at the award date. At the end of each financial reporting period, we estimate the extent to which the performance criteria will be met at the end of three years, and record an appropriate charge in the profit and loss account, together with a corresponding credit to profit and loss reserves. Changes in estimates of the number of shares vesting may result in charges or credits to the profit and loss account in subsequent periods.

### Share-based payments

We have implemented the generally accepted accounting principle for accounting for share-based payments with subsidiary undertakings under FRS 101, whereby the Company has granted rights to its shares to employees of its subsidiary undertakings under an equity-settled arrangement, and the subsidiaries have not reimbursed the Company for these rights. Under this arrangement, the Company treats the share-based payment recognised in the subsidiary's Financial Statements as a cost of investment in the subsidiary and credits equity with an equal amount.

### Derivative financial instruments and hedging

Our activities expose us primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

We use interest rate swaps to hedge interest rate risk. We also use forward foreign currency contracts, implemented through a medium-term US Dollar cross currency borrowing and related interest rate swap, to hedge exposure to translation risk associated with US Dollar net assets of subsidiaries. Forward foreign currency contracts do not qualify for hedge accounting in the Parent Company Financial Statements, as the hedged item is not in its balance sheet.

Our use of financial derivative instruments is governed by the Group's policies, which are approved by the Board of Directors. The notes to the Group Financial Statements include information about the Group's financial risks and their management, and its use of financial instruments and their impact on the Group's risk profile, performance and financial condition.

The fair value of the US Dollar and interest rate swaps is the estimated amount that we would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the creditworthiness of the swap counterparties.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, which is the present value of the quoted forward price.

### Cash flow hedges

Where a derivative financial instrument is designated as hedging the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, we recognise the effective part of any gain or loss on the instrument directly in the hedging reserve. We recognise any ineffective portion of the hedge immediately in the profit and loss account.

If we hedge a forecast transaction that subsequently results in our recognising a financial asset or liability, then we reclassify the associated gains and losses that we had recognised directly in equity into profit or loss. We do this in the same period or periods that the asset or liability affects profit or loss, which are the periods when we recognise the interest income or expense.

If we expect a hedged forecast transaction to occur but the hedging instrument has expired, been sold, terminated or exercised, or we have revoked the designation of the hedge relationship, then the cumulative gain or loss at that point remains in equity and we recognise it in accordance with the above policy when the transaction occurs. If we no longer expect the hedged transaction to occur, we immediately recognise in the profit and loss account the cumulative unrealised gain or loss recognised in equity.

When a hedging instrument expires or is sold, terminated or exercised, or we revoke designation of the hedge relationship, the cumulative gain or loss at that point remains in equity until we dispose of the investment it relates to.

We treat derivatives embedded in other financial instruments or other host contracts as separate derivatives, when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with unrealised gains and losses reported in the income statement.

# Notes to the Parent Company Financial Statements continued

For the year ended 30 June 2016

## 40. Employees

Staff costs including Directors' remuneration during the year amounted to:

| | 2016 £m | 2015 £m |
|---|---|---|
| Wages and salaries | 5.3 | 5.2 |
| Social security costs | 0.7 | 0.5 |
| Pension costs | 0.1 | 0.1 |
| Share-based payment expense | 1.7 | 0.3 |
| | 7.8 | 6.1 |

The average monthly number of employees including Executive Directors during the year was as follows:

| | 2016 Number | 2015 Number |
|---|---|---|
| Administration | 29 | 24 |

Details of Directors' remuneration, pensions and share options are included in the Directors' Remuneration Report.

## 41. Intangible assets

**Accounting policies**

Patents, licences and software are stated at acquisition cost less accumulated amortisation. The amortisation period is determined by reference to expected useful life, which is reviewed at least annually. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

| | Software £m | Patents and licences £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 July 2015 | 1.0 | – | 1.0 |
| Additions | – | 2.2 | 2.2 |
| **Balance at 30 June 2016** | **1.0** | **2.2** | **3.2** |
| **Amortisation** | | | |
| Balance at 1 July 2015 | 0.5 | – | 0.5 |
| Amortisation for the year | 0.2 | 0.1 | 0.3 |
| **Balance at 30 June 2016** | **0.7** | **0.1** | **0.8** |
| **Carrying amounts** | | | |
| **At 30 June 2016** | **0.3** | **2.1** | **2.4** |
| **At 30 June 2015** | 0.5 | – | 0.5 |

During the year, we acquired a worldwide licence to use Caribou Biosciences, Inc. leading CRISPR-Cas9 gene editing technology platform.

## 42. Tangible assets

**Accounting policies**

We state fixed assets at cost, together with any incidental acquisition expenses, or at their latest valuation, less depreciation and any provision for impairment. We calculate depreciation on a straight-line basis, to write the assets down to their estimated residual values over their estimated useful lives. The rates of annual depreciation on tangible fixed assets are as follows:

| | |
|---|---|
| Leasehold improvements | period of lease |
| Equipment | 3 to 20 years |

We review the carrying value of fixed assets for impairment, if events or changes in circumstances indicate that the carrying value may not be recoverable.

## 42. Tangible assets continued

| | Short leasehold improvements £m | Equipment – owned £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 July 2015 | 0.4 | 0.7 | 1.1 |
| Additions | 0.3 | 0.2 | 0.5 |
| Disposals | (0.2) | (0.3) | (0.5) |
| **Balance at 30 June 2016** | **0.5** | **0.6** | **1.1** |
| **Depreciation** | | | |
| Balance at 1 July 2015 | 0.2 | 0.6 | 0.8 |
| Depreciation for the year | – | 0.1 | 0.1 |
| Disposals | (0.2) | (0.3) | (0.5) |
| **Balance at 30 June 2016** | **–** | **0.4** | **0.4** |
| **Carrying amounts** | | | |
| **At 30 June 2016** | **0.5** | **0.2** | **0.7** |
| **At 30 June 2015** | 0.2 | 0.1 | 0.3 |

## 43. Investments in subsidiaries

**Accounting policies**

Shares in subsidiary undertakings are stated at cost less any provision for impairment.

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, then we estimate the recoverable amount. If the recoverable amounts of the cash-generating unit is less than the value of investment, it is considered to be impaired and we write it down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

| | Shares in subsidiary undertakings £m |
|---|---|
| **Cost** | |
| Balance at 1 July 2015 | 294.1 |
| Additions | 9.6 |
| Disposals | (30.7) |
| **Balance at 30 June 2016** | **273.0** |
| **Provision for impairment** | |
| Balance at 1 July 2015 | 208.7 |
| Provided during the year | 2.6 |
| Disposals | (20.7) |
| **Balance at 30 June 2016** | **190.6** |
| **Carrying amounts** | |
| **At 30 June 2016** | **82.4** |
| **At 30 June 2015** | 85.4 |

Impairment has been recognised on our investment in Pecplan ABS Imp. e Exp. Ltda., which reflects changes in the business structure.

**Principal subsidiary undertakings**

The Company's principal subsidiaries and their main activities are given in note 35.

# Notes to the Parent Company Financial Statements continued

For the year ended 30 June 2016

## 44. Debtors

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Amounts due within one year** | | | |
| Amounts owed by Group undertakings | | **463.6** | 454.3 |
| Corporation tax recoverable | | **–** | 0.2 |
| Other taxes and social security | | **0.1** | 0.5 |
| Prepayments and accrued income | | **0.5** | 0.2 |
| Deferred taxation | 45 | **1.6** | 1.2 |
| Derivative financial asset | | **0.6** | 0.7 |
| | | **466.4** | 457.1 |

At the balance sheet date, the amounts owed by Group undertakings were £463.6m (2015: £454.3m). The carrying amount of these assets approximates their fair value. There are impaired receivable balances of £nil (2015: £nil). Of the amounts owed by Group undertakings, £336.0m (2015: £323.1m) is interest-bearing.

## 45. Deferred taxation

**Accounting policies**

We recognise deferred taxation in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date.

We only recognise deferred taxation assets if we consider it more likely than not that we will have suitable profits from which we can deduct the future reversal of the underlying timing differences. Timing differences are differences arising between the Company's taxable profits and its results as stated in the Financial Statements, and which are capable of reversing in one or more subsequent periods.

We only recognise deferred taxation in respect of the future remittance of retained earnings of overseas subsidiaries to the extent that, at the balance sheet date, dividends have been accrued as receivable.

We measure deferred taxation on a non-discounted basis, at the tax rates we expect to apply in the periods in which we expect the timing differences to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The movements in deferred taxation are as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| At the start of the year | **1.2** | 0.8 |
| Recognised in income statement | **0.3** | 0.1 |
| Recognised in equity | **0.1** | 0.3 |
| **At the end of the year** | **1.6** | 1.2 |

The amounts provided are as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Share-based payment expense | **1.1** | 1.0 |
| Other timing differences | **0.5** | 0.2 |
| | **1.6** | 1.2 |

The amounts unprovided are as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Losses | **–** | 0.1 |

**Unrecognised deferred tax assets**

At the balance sheet date, the Company had no unused tax losses available for offset against future profits with a potential tax benefit (2015: £0.1m).

## 46. Creditors: amounts falling due within one year

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Bank loans and overdrafts | 48 | **4.5** | 12.0 |
| Trade creditors | | **0.6** | 0.4 |
| Other creditors | | **0.2** | 0.2 |
| Amounts owed to Group undertakings | | **281.9** | 284.8 |
| Accruals and deferred income | | **3.6** | 5.0 |
| Derivative financial liabilities | 49 | **0.5** | 0.2 |
| | | **291.3** | 302.6 |

Included within amounts owed to Group undertakings are amounts of £240.7m (2015: £252.8m) which are interest-bearing and payable on demand.

There are no outstanding contributions due to defined contribution pension schemes for the benefit of the employees (2015: £nil).

## 47. Creditors: amounts falling due after more than one year

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Bank loans and overdrafts | 48 | **115.3** | 77.3 |
| Derivative financial liabilities | 49 | **0.8** | – |
| | | **116.1** | 77.3 |

## 48. Loans and borrowings

**Accounting policies**

We initially state debt at the amount of the net proceeds, after deducting issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

We charge the finance costs of debt to the profit and loss account over the debt term, at a constant rate on the carrying value of the debt to which they relate.

| | 2016 £m | 2015 £m |
|---|---|---|
| **Loans and borrowings comprise amounts falling due:** | | |
| In one year or less or on demand | **5.0** | 12.5 |
| In more than one year but not more than two years | **–** | 6.4 |
| In more than two years but not more than five years | **116.1** | 70.9 |
| | **121.1** | 89.8 |
| Less: unamortised issue costs | **(1.3)** | (0.5) |
| | **119.8** | 89.3 |
| **Amounts falling due within one year** | **(4.5)** | (12.0) |
| **Amounts falling due after more than one year** | **115.3** | 77.3 |

The Group's credit facilities at the balance sheet date, which were renewed in the year, now expire in February 2021, comprised a £65m multi-currency revolving credit facility and a US$140m revolving credit facility.

As part of its interest rate strategy, the Company has entered into interest rate swaps to hedge floating LIBOR rates. As a result, bank loan and overdrafts include borrowings of US$110m (£82.3m) fixed at 1.10%, excluding applicable bank margin.

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans and overdrafts were as follows:

| | Currency | Interest rate | 2016 £m | 2015 £m |
|---|---|---|---|---|
| Revolving credit facility and overdraft | GBP | 1.5% | **26.2** | 10.8 |
| Revolving credit facility, term loan and overdraft | USD | 1.6% | **86.0** | 73.1 |
| Revolving credit facility and overdraft | EUR | 0.7% | **6.2** | 3.5 |
| Other unsecured bank borrowings | Other | 1.7% | **1.4** | 1.9 |
| **Total interest-bearing liabilities** | | | **119.8** | 89.3 |

The above revolving credit facilities are unsecured.

# Notes to the Parent Company Financial Statements continued

For the year ended 30 June 2016

### 49. Derivatives and other financial instruments

Additional disclosure on financial instruments can be found in note 24.

### 50. Capital and reserves

**Share capital**

| | 2016 Number | 2015 Number | 2016 £m | 2015 £m |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| Ordinary shares of 10 pence | 61,012,703 | 60,968,447 | 6.1 | 6.1 |

The holders of ordinary shares are entitled to receive dividends, as declared from time to time.

The movement in share capital for the period was as follows:

| | 2016 Number | 2015 Number | 2016 £m | 2015 £m |
|---|---|---|---|---|
| Issued under the Executive Share Option Plan | 44,256 | 49,716 | – | – |

Shares issued under share option plans were issued at option prices as follows:

| | 2016 Number | Price | 2015 Number | Price |
|---|---|---|---|---|
| Executive Share Option Plan | – | 310.50p | 11,454 | 310.50p |
| | 4,992 | 440.00p | – | – |
| | 527 | 582.00p | – | 582.00p |
| | – | 776.00p | 531 | 776.00p |
| | 629 | 654.50p | 899 | 654.50p |
| | 4,860 | 729.83p | 36,832 | 729.83p |
| | 26,799 | 977.83p | – | 977.83p |
| | 6,449 | 1,334.00p | – | – |
| | 44,256 | | 49,716 | |

**Reserve for own shares**

The Company's shares are held by a Qualifying Employee Share Ownership Trust, which is an employee benefit trust established to facilitate the operation of our long-term incentive scheme for senior management. The reserve amount represents the deduction in arriving at shareholders' funds for the consideration the trust paid for the Company's shares, which had not vested unconditionally at the balance sheet date. The number and market value of the ordinary shares held by the employee benefit trust and the QUEST were:

| | 2016 Number | 2015 Number | 2016 £m | 2015 £m |
|---|---|---|---|---|
| Shares allocated but not vested | 85,075 | 146,625 | 1.3 | 2.1 |
| Unallocated shares | 92,334 | 92,334 | 1.5 | 1.3 |
| | 177,409 | 238,959 | 2.8 | 3.4 |

The shares have a nominal value of £17,741 (2015: £23,896).

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments net of taxation.

## 51. Operating leases

**Accounting policies**

For operating leases, we charge the rentals payable, and any incentives we receive to enter into an operating lease, to the income statement on a straight-line basis over the lease term.

The Company has entered into non-cancellable commercial arrangements on certain properties and motor vehicles. The leases have various terms and renewal rights.

Total of future minimum lease payments under non-cancellable operating leases which expire within:

| | 2016 £m | 2015 £m |
|---|---|---|
| Between one and five years | – | 0.1 |
| More than five years | 1.2 | 1.3 |
| | 1.2 | 1.4 |

Operating lease rentals in the year:

| | 2016 £m | 2015 £m |
|---|---|---|
| Other | 0.2 | 0.1 |

## 52. Related party transactions

The Company is exempt under FRS 101 from disclosing transactions with other members of the Group.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of other related party transactions are disclosed in note 17 and note 34 in the Group Financial Statements.

## 53. Contingencies

The retirement benefit obligations referred to in note 27 include obligations relating to the Milk Pension Fund defined benefit scheme. Genus, together with other participating employers, is joint and severally liable for the scheme's obligations. Genus has accounted for its section and its share of any orphan assets and liabilities, collectively representing approximately 75% of the MPF. As a result of the joint and several liability, Genus has a contingent liability for the scheme's obligations that it has not accounted for.

# Five Year Record – Consolidated Results

The information included in the five year record below is in accordance with IFRS as adopted for use in the European Union.

| Financial results | **2016 £m** | 2015 £m | 2014 £m | 2013+ £m | 2012+ £m |
|---|---|---|---|---|---|
| Revenue from continuing operations | **388.3** | 398.5 | 372.2 | 345.3 | 341.8 |
| Adjusted operating profit from continuing operations* | **49.3** | 47.2 | 42.9 | 45.0 | 45.2 |
| Adjusted operating profit including joint ventures and associates* | **54.3** | 51.2 | 44.8 | 48.2 | 48.0 |
| Adjusted profit before tax* | **49.7** | 46.6 | 39.3 | 42.5 | 43.7 |
| Basic adjusted earnings per share* | **60.7p** | 56.8p | 46.5p | 49.1p | 50.0p |
| Diluted adjusted earnings per share* | **60.1p** | 56.1p | 46.4p | 48.4p | 49.3p |
| Operating profit from continuing operations | **58.6** | 59.5 | 41.8 | 36.3 | 53.6 |
| Profit before tax from continuing operations | **60.9** | 57.8 | 38.2 | 33.4 | 51.6 |
| Profit after tax from continuing operations | **50.3** | 40.5 | 28.9 | 23.4 | 37.5 |
| Basic earnings per share | **81.1p** | 65.7p | 47.7p | 38.8p | 62.4p |
| Diluted earnings per share | **80.3p** | 64.9p | 47.6p | 38.3p | 61.6p |
| Net assets | **368.1** | 305.1 | 285.3 | 300.5 | 278.0 |
| Net debt | **89.7** | 71.8 | 63.9 | 52.9 | 56.4 |

* Adjusted operating profit, adjusted profit before tax and adjusted basic and diluted earnings per share are before net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, share-based payment expense, exceptional items and other gains and losses.
\+ Restated due to adoption of the amendments of IAS 19.

# Glossary

**AGM –** Annual General Meeting.

**Artificial insemination ('AI') –** Using semen collected from a bull or boar to impregnate a cow or sow when in estrus. Artificial insemination allows a genetically superior male to be used to mate with many more females than would be possible with natural mating.

**Biosecurity –** The precautions taken to reduce the chance of transmitting disease agents from one livestock operation to another.

**Boar –** A male pig.

**BRD –** Bovine Respiratory Disease, a complex, bacterial and viral infection that causes lung disease in cattle (particularly calves) and is often fatal.

**CPI –** Consumer Price Index.

**CRISPR-Cas 9 –** Technology which accurately targets and cuts DNA to produce precise and controllable changes to the genome.

**CSR –** Corporate Social Responsibility.

**DSBP –** Deferred Share Bonus Plan.

**EPS –** Earnings per share.

**Farrow –** When a sow gives birth to piglets.

**GELT –** Genus Executive Leadership Team.

**Gender skew –** The ability to influence the proportion of offspring being of a particular sex.

**Genetic gain –** The change of the genetic make up of a particular animal population in response to having selected parents that excelled genetically for important traits.

**Genetic lag –** The amount of time required to disseminate genetic gain from a nucleus herd to the commercial customer.

**Genetic nucleus –** A specialised pig herd, where Genus PIC keeps its pure lines. Pigs are genetically tested at the nucleus to select the best animals to produce the next generation.

**Genomic bull –** A bull which has been assessed through genomic testing. This typically refers to bulls which have not been progeny-tested.

**Genomically tested –** An animal that has been DNA profiled.

**Genomics –** The study of the genome, which is the DNA sequence of an animal's chromosomes.

**Gilt –** A young female pig, which has not yet given birth.

**GMS –** ABS's Genetic Management System, which creates a genetic solution tailored to each individual dairy producer to obtain improved herd genetics.

**Grandparent –** The relationship of a breeding pig to the generation of terminal market pigs. A grandparent produces parents, who in turn produce the commercial generation of terminal pigs.

**Group –** Genus plc and its subsidiary companies.

**GSS –** Genus Sexed Semen.

**IVB –** In Vitro Brasil S.A.

**In vitro fertilisation ('IVF') –** The fertilisation of an oocyte with semen (outside an animal) in a laboratory for transfer into a surrogate.

**Index/Indices –** A formula incorporating economically important traits for ranking the genetic potential of animals as parents of the next generation.

**Integrated pork producer –** Producers of pork typically involved in raising animals to slaughter weight all the way through to packaged and/or branded pork products.

**IP –** Intellectual property.

**JV –** Joint venture.

**Line –** Multiple animals that have been mated together in a closed breeding population. Pure lines can have their origins in one founding breed or in several breeds.

**Market pig equivalents ('MPE') –** A theoretical measure of the number of terminal pigs, of which each pig accounts for half a male MPE and half a female MPE, produced by each invoiced product.

**Multiplier –** A producer whose farm contains grandparent sows. The farm crosses together two lines of grandparents, multiplying the number of genetically improved parents that are available for sale.

**PEDv –** Porcine epidemic diarrhoea virus, which causes older pigs to lose weight and is usually fatal for newborn piglets.

**PQA –** Pork Quality Assurance.

**Progeny tested –** Elite animals whose genetic value as a parent has been tested and validated through the performance of their offspring.

**PRRSv –** Porcine Reproductive and Respiratory Syndrome Virus.

**PSP –** Performance Share Plan.

**R&D –** Research and development.

**RMS –** ABS's Reproductive Management System, which is a systematic approach to maximising pregnancy production and its contribution to herd profitability.

**RPI –** Retail price index.

**RWD –** ABS's Real World Data System of observed performance data from many dairy herds.

**Sire –** The male parent of an animal.

**Sire line –** The male line selected for traits desirable for the market.

**Sow –** A female pig which has given birth at least once.

**Straw –** A narrow tube used to package frozen bull semen.

**Stud –** Locations where bulls or boars are housed and their semen collected, evaluated, diluted into multiple doses/straws and packaged, ready for shipping to farms.

**Trait –** A measurable characteristic that may be a target for genetic selection.

**TransitionRight™ –** Genus ABS's patent-pending genetic selection tool to help prevent multiple post calving metabolic disorders that occur during transition.

**Unit –** A straw of frozen bull semen or tube/bag of fresh boar semen sold to a customer.

**Terminal boars –** The male pig that is used to mate with a parent female to produce a terminal pig.

# Notice of Annual General Meeting

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**
If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all your shares in Genus plc, please send this document and the accompanying documents as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

**Notice of Annual General Meeting**
Notice is hereby given that the 2016 Annual General Meeting of Genus plc (the 'Company') will be held at Buchanan Communications, 107 Cheapside, London EC2V 6DN on 17 November 2016 at 11.00 am for the following purposes:

To consider and if thought fit, to pass the following resolutions, of which numbers 1 to 13 will be proposed as ordinary resolutions and numbers 14 to 18 as special resolutions.

1. To receive the Company's audited Financial Statements and the Directors' Reports for the year ended 30 June 2016 (the 'Annual Report and Accounts').

2. To approve the Directors' Remuneration Report, other than the part containing the Directors' Remuneration Policy, for the year ended 30 June 2016, as set out on pages 62 to 64 and 73 to 85 respectively of the Company's Annual Report 2016.

3. To approve the Directors' Remuneration Policy as set out on pages 65 to 72 of the Company's Annual Report 2016, to take effect immediately after the end of the Annual General Meeting on 17 November 2016.

4. To declare a final dividend of 14.7 pence per ordinary share, payable on 2 December 2016 to shareholders on the register of members at the close of business on 18 November 2016.

5. To re-elect Bob Lawson as a Director of the Company who, being eligible, offers himself for re-election.

6. To re-elect Karim Bitar as a Director of the Company who, being eligible, offers himself for re-election.

7. To re-elect Stephen Wilson as a Director of the Company who, being eligible, offers himself for re-election.

8. To re-elect Nigel Turner as a Director of the Company who, being eligible, offers himself for re-election.

9. To re-elect Duncan Maskell as a Director of the Company who, being eligible, offers himself for re-election.

10. To re-elect Lykele van der Broek as a Director of the Company who, being eligible, offers himself for re-election.

11. To elect Lysanne Gray as a Director of the Company who, being eligible, submits herself for election.

12. To reappoint Deloitte LLP as auditor of the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the next general meeting of the Company at which Financial Statements are laid and to authorise the Audit Committee of the Board to determine the remuneration of the auditor.

13. That the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company up to a maximum aggregate nominal amount of either:

    13.1 if resolution 17 is not passed, £1,488,966.30 being 14,889,663 ordinary shares of 10 pence each ('Ordinary Shares'), representing 24.4% of the issued share capital of the Company; or

    13.2 in the event of, and conditional upon, the passing of resolution 17:

        13.2.1 £2,036,657.90 being 20,366,579 Ordinary Shares representing one third of the issued share capital of the Company; and

        13.2.2 £2,036,657.90 being 20,366,579 Ordinary Shares representing a further third of the issued share capital of the Company, provided that (i) they are equity securities (within the meaning of section 560(1) of the Act) and (ii) they are offered by way of a rights issue,

    such authority to expire on the conclusion of the Company's Annual General Meeting next following or, if earlier, the close of business on the day which is 15 months after the date on which this resolution is passed but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require shares to be allotted or such rights to be granted after such expiry and the Directors may allot shares and grant rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

    In this resolution, 'rights issue' means an offer of equity securities open for acceptance for a period fixed by the Directors to holders on the register on a fixed record date (as the Directors may determine) in proportion as nearly as may be to the respective numbers of Ordinary Shares held by them on any such record date and to other holders of equity securities entitled to participate therein, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirement of any recognised regulatory body or any stock exchange in, any territory or by virtue of shares being represented by depositary receipts or any other matter.

14. That subject to and conditional on the passing of resolution 13, the Directors be empowered, pursuant to sections 570 and 573 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 13 or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

    14.1 in connection with an offer of securities (but in the case of the authority granted under paragraph 13.2.2 of resolution 13 above an offer of such securities by way of rights issue only); and

    14.2 otherwise than pursuant to sub-paragraph 14.1 above, up to an aggregate nominal amount of £305,498.68 being 3,054,986 Ordinary Shares representing not more than 5% of the issued share capital of the Company as at 5 October 2016 (being the latest practicable date before publication of this Notice),

    and shall expire upon the expiry of the general authority conferred by resolution 13 above, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

    In this resolution, 'rights issue' has the same meaning as given in resolution 13.

15. That subject to and conditional on the passing of resolution 13, the Directors be authorised in addition to any authority granted under resolution 14 to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 13 or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be:

    15.1 limited to the allotment of equity securities up to an aggregate nominal amount of £305,498.68 representing not more than 5% of the issued share capital of the Company as at 5 October 2016 (being the latest practicable date before publication of this Notice); and

    15.2 used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice,

    and shall expire upon the expiry of the general authority conferred by resolution 13 above, save that the Company may, before such expiry, make an offer or agreement which would, or might, require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

16. That the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares on such terms and in such manner as the Directors think fit provided that:

    16.1 the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 6,109,973 (representing 10% of the Company's issued ordinary share capital as at 5 October 2016, being the latest practicable date before publication of this Notice);

    16.2 the minimum price, exclusive of any expenses, which may be paid for an Ordinary Share is 10 pence;

    16.3 the maximum price, exclusive of any expenses, which may be paid for an Ordinary Share is an amount equal to the higher of: (a) 105% of the average of the middle market quotations for an Ordinary Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately before the day on which such share is contracted to be purchased; and (b) the higher of the price of the last independent trade and the highest current independent bid for an Ordinary Share in the Company on the trading venues where the market purchases by the Company pursuant to the authority conferred by this resolution 16 will be carried out; and

    16.4 the authority conferred by this resolution shall expire on the conclusion of the Company's Annual General Meeting next following or the close of business on the day which is 15 months after the date of its passing (whichever occurs first) unless previously renewed, varied or revoked by the Company in general meeting, except that the Company may, before such expiry, enter into a contract for the purchase of Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be completed by or executed wholly or partly after the expiration of this authority, and may purchase its Ordinary Shares in pursuance of any such contract.

17. That:

    17.1 the current Articles of the Company ('Current Articles') be amended by deleting all the provisions formerly in the Company's Memorandum of Association ('Memorandum') which, by virtue of section 28 of the Act, are treated as provisions of the Company's Articles; and

    17.2 the Articles produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the new Articles (the 'New Articles') of the Company in substitution for, and to the exclusion of, the Current Articles.

18. That a General Meeting, other than an Annual General Meeting, may be called on not less than 14 clear days' notice and that such authority shall expire on the conclusion of the Company's Annual General Meeting next following.

# Notice of Annual General Meeting continued

The Directors consider that all the resolutions to be considered at the Annual General Meeting are in the best interests of the Company and its members as a whole and are therefore likely to promote the success of the Company for the benefit of its members as a whole. The Directors unanimously recommend that you vote in favour of all the proposed resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 112,841 shares representing approximately 0.185% of the existing issued ordinary share capital of the Company.

By order of the Board
Registered office:
Matrix House
Basing View
Basingstoke
RG21 4DZ
Registered in England and Wales with number 02972325

**Dan Hartley**
**Group General Counsel & Company Secretary**
5 October 2016

## Explanatory Notes

This section contains an explanation of each of the resolutions to be put to the Annual General Meeting. Resolutions 1 to 13 are ordinary resolutions requiring the approval of a simple majority of shareholders present (in person or by proxy) and voting at the Annual General Meeting. Resolutions 14 to 18 are special resolutions requiring the approval of 75% of shareholders present (in person or by proxy) and voting at the Annual General Meeting.

**Resolution 1 – To Receive the Annual Report and Accounts**
The Chairman will present the Annual Report and Accounts to the AGM.

**Resolution 2 and 3 – Approval of (i) the Directors' Remuneration Report; and (ii) the Directors' Remuneration Policy**
The Company is required to offer an annual advisory vote on the implementation of the Company's existing remuneration policy in terms of the payments and share awards made to Directors during the year (the 'Director's Remuneration Report') and a separate binding vote on the Company's forward looking remuneration policy (the 'Directors' Remuneration Policy') at least once every three years, or earlier if a change is made to the Directors' Remuneration Policy, or if the advisory vote is not passed by shareholders.

Resolution 2 seeks shareholder approval for the Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy) as set out on pages 62 to 64 and 73 to 85 respectively of the Company's Annual Report 2016. The Directors' Remuneration Report gives details of the Directors' remuneration for the year ended 30 June 2016. The report also includes details of the Remuneration Committee's representations and activities. The Company's auditor Deloitte LLP has audited those parts of the Directors' Remuneration Report which are required to be audited and their report is issued in the Company's Annual Report 2016.

Resolution 3 seeks shareholder approval for the Directors' Remuneration Policy given the changes made to it as outlined in the letter from the Chairman of the Remuneration Committee within the Directors' Remuneration Report (the 'Revised Policy'). The Revised Policy is contained in pages 65 to 72 of the Company's Annual Report 2016. The Revised Policy is designed to ensure that reward is aligned with the business strategy. The Revised Policy provides greater flexibility to recognise very significant biotechnology and strategic Company milestones and the ability to recognise and retain key individuals in order to maximise the Company's long-term performance and shareholder value.

Subject to such approval, the proposed effective date of the Directors' Remuneration Policy is 17 November 2016, being the date of the Annual General Meeting, and all payments from that date by the Company to the Directors and any former Directors must be made in accordance with such policy if approved (unless a payment has been separately approved by a shareholder resolution).

If the Directors' Remuneration Policy is not approved for any reason, the Company will, if and to the extent permitted by the Act, continue to make payments to Directors in accordance with the existing Remuneration Policy.

**Resolution 4 – Final Dividend**
Final dividends must be approved by shareholders but must not exceed the amount recommended by Directors. If the meeting approves the final dividend it will be paid out in accordance with resolution 4. An interim dividend of 6.7 pence per ordinary share was paid on 30 March 2016 to shareholders on the register at 4 March 2016.

**Resolutions 5 to 11 – Re-election/Election of Directors**
In accordance with provisions of the UK Corporate Governance Code, all Directors of the Company are required to offer themselves for annual re-election. This is the first meeting at which Lysanne Gray stands for election. Biographies of all of the current Directors can be found on pages 46 and 47 of the Company's Annual Report 2016. The Board has confirmed, following a performance review, that all Directors standing for re-election continue to perform effectively and demonstrate commitment to their roles. The Board has considered whether each of the independent Non-Executive Directors is free from any relationship that could materially interfere with the exercise of his or her independent judgement and has determined that each continues to be considered to be independent.

Mike Buzzacott is retiring from the Board at the end of this year's Annual General Meeting and is not seeking re-election. The whole of the Board would like to thank Mike for his hard work and dedication to the Company over the years.

**Resolution 12 – Appointment of Auditor and Auditor's Remuneration**
The Company is required to appoint an auditor at each general meeting at which accounts are presented, to hold office until the end of the next such meeting. Following the conclusion of an external audit tender carried out in compliance with the UK Corporate Governance Code in the year ended 30 June 2016, this resolution is recommended by the Audit Committee and proposes the reappointment of the Company's existing auditor, Deloitte LLP and gives authority to the Audit Committee to agree the auditor's remuneration.

**Resolution 13 – Authority to Allot Shares**
Resolution 13 is proposed as an ordinary resolution and seeks the approval of shareholders, in accordance with section 551 of the Act, to authorise the Directors to allot Ordinary Shares for a period as stated in resolution 13. Resolution 13 provides for two alternatives dependant on whether resolution 17 is passed or not.

The existing Articles limit the number of Ordinary Shares which can be allotted by the Company to a maximum of 14,889,663 (as set out in resolution 13.1). If resolution 17 is passed, and the New Articles are adopted by the Company, this limitation will no longer apply.

In the event that resolution 17 is passed, the Company is, in accordance with institutional guidelines, seeking the authority to allot shares representing up to two-thirds of the Company's issued share capital, provided that any amount in excess of one-third of the Company's issued share capital is only used to allot shares pursuant to a fully pre-emptive rights issue.

# Notice of Annual General Meeting continued

In light of the Investment Association guidelines, the Board considers it appropriate that Directors be granted authority to allot shares in the capital of the Company up to a maximum nominal amount of £4,073,315.80 representing two-thirds of the Company's issued ordinary share capital as at 5 October 2016 (the latest practicable date prior to publication of this document). If the Company wishes to allot more than a nominal amount of £2,036,657.90 (representing one-third of the Company's issued ordinary share capital) then any additional amount can only be allotted pursuant to a rights issue.

The Directors have no current intention to exercise this authority (other than in relation to the Company's employee share schemes) and intend to comply with the guidance issued by the Investment Association. However, if the Directors do exercise this authority, the Directors intend to follow emerging best practice as regards to its use. As at the date of this Notice, no shares are held by the Company in treasury.

**Resolutions 14 and 15 – Disapplication of Pre-emption Rights**
Resolutions 14 and 15 are special resolutions and give the Directors authority to allot ordinary shares in the capital of the Company pursuant to the authority granted under resolution 13 above for cash without complying with the pre-emption rights in the Act in certain circumstances.

Resolution 14 will permit the Directors to allot:

(a) equity securities up to a nominal amount of £4,073,315.80, representing two-thirds of the Company's issued share capital as at 5 October 2016 (the latest practicable date prior to publication of this document) on an offer to existing shareholders on a pre-emptive basis (that is including a rights issue or an open offer), with one-third being available only in connection with a rights issue (in each case subject to any adjustments, such as for fractional entitlements and overseas shareholders, as the Directors see fit); and

(b) equity securities up to a maximum nominal value of £305,498.68, representing approximately 5% of the issued ordinary share capital of the Company as at 5 October 2016 (the latest practicable date prior to publication of this document) otherwise than in connection with a pre-emptive offer to existing shareholders.

Resolution 15 is being proposed as a separate resolution to authorise the Directors to allot a further 5% of the issued ordinary share capital of the Company (as at 5 October 2016, being the latest practicable date prior to publication of this notice) otherwise than in connection with a pre-emptive offer to existing shareholders for the purposes of financing a transaction (or refinancing within six months of the transaction) which the Directors determine to be an acquisition or other capital investment contemplated by the Pre-emption Group's Statement of Principles (the "Pre-Emption Group Principles").

The Pre-Emption Group Principles were revised in March 2015 to allow the authority for an issue of shares for cash otherwise than in connection with a pre-emptive offer to be increased from 5% to 10% of the Company's issued share capital, provided that the Company confirms that it intends to use the additional 5% authority only in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue (a 'Relevant Acquisition or Specified Capital Investment'). The Directors believe that it is appropriate to seek this additional 5% authority in resolution 15 to give the Company the flexibility that this resolution affords. In line with Pre-Emption Group 2016 guidance, the annual disapplication of pre-emption rights is being proposed as two separate resolutions.

The Board intends to adhere to the provisions in the revised Pre-Emption Group's Statement of Principles and to not allot shares for cash on a non pre-emptive basis in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company (excluding treasury shares) within a rolling three-year period, without prior consultation with shareholders.

The authority contained in resolutions 14 and 15 will expire upon the expiry of the authority to allot shares conferred in resolution 13 (that is at the end of the next Annual General Meeting of the Company or, if earlier, on the close of business on the day which is 15 months from the date of these resolutions). The Directors' existing authority expires at the forthcoming Annual General Meeting.

**Resolution 16 – Authority to Purchase Own Shares**
Resolution 16, which will be proposed as a special resolution, seeks authority for the Company to purchase up to 10% of its Ordinary Shares at, or between, the minimum and maximum prices specified in this resolution. This power would be used only after careful consideration by the Directors, having taken into account market conditions prevailing at that time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The Directors would exercise the authority to purchase Ordinary Shares only if they considered it to be in the best interests of shareholders as a whole and if the purchase could be reasonably expected to result in an increase in earnings per share.

Under the Act, the Company is allowed to hold its own shares in treasury following a purchase of its own shares, instead of cancelling them. Such shares may be resold for cash or used to satisfy share options and share awards under the Company's share incentive schemes but all rights attaching to them, including voting rights and any right to receive dividends, are suspended whilst they are held in treasury. If the Directors exercise the authority conferred by resolution 16, the Company will have the option of holding repurchased shares in treasury.

If resolution 16 is passed at the Annual General Meeting, it is the Company's current intention to hold in treasury all of the shares it may purchase pursuant to the authority granted to it. However, in order to respond properly to the Company's capital requirements and prevailing market conditions, the Directors will reassess at the time of any and each actual purchase whether to hold the shares in treasury or cancel them, provided it is permitted to do so. As at the date of this Notice, no shares are held by the Company in treasury.

At 5 October 2016 (the latest practicable date prior to the publication of this document), options were outstanding to subscribe for 1,833,739 Ordinary Shares, representing 3% of the issued share capital at that date. If the full authority to purchase such shares (existing and sought) was exercised, they would represent 3.3% of the Company's issued share capital as at that date (assuming there have been no other changes to issued share capital in the meantime). The authority sought at the Annual General Meeting will expire at the conclusion of the Annual General Meeting next following, or the close of business on the day which is 15 months from the date of this resolution (whichever is earlier).

**Resolution 17– Adoption of New Articles**
Resolution 17, which will be proposed as a special resolution, seeks shareholder approval for the Company to adopt New Articles at the 2016 Annual General Meeting, principally in order to reflect developments in practice and legislation, and to provide clarification and additional flexibility. The Company's Current Articles were adopted in 2008.

The first part of the resolution deals with the changes to the Company's Articles to reflect the Act provisions relating to the Company's Memorandum and share capital. Under section 28 of the Act, all provisions of the Company's Memorandum existing at 1 October 2009, including the objects clause, are deemed to now form part of the Company's Articles. It is not necessary under the Act for a company to set out its objects. The Act provides that, unless the articles state otherwise, a company's objects will be unrestricted.

The other key provision of the Memorandum which is deemed to form part of the Company's Articles is the provision relating to authorised share capital. The Act removed the requirement for a company to place limits on its authorised share capital.

By adopting the New Articles which do not contain the objects clause or the authorised share capital statement, the Company will, in accordance with market practice for listed companies, remove from its Articles these provisions, which were deemed to form part of the Company's Articles under section 28 of the Act. This means that the Company's objects will be unrestricted and the Company can, in accordance with institutional investor guidelines, seek an authority at each AGM for the directors to allot new shares without any limitation in its Articles of Association.

The other principal changes being proposed in the New Articles are summarised in Appendix 1 starting on page 162 of this document. Other changes, which are of a minor, technical or clarifying nature, have not been noted.

A copy of the Current Articles and the proposed New Articles that reflect these amendments will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of the Company (with address Matrix House, Basing View, Basingstoke, Hampshire, RG21 4DZ) up until the close of the meeting. Copies will also be available at the offices of Buchanan Communications, 107 Cheapside, London, EC2V 6DN on the morning of the meeting from 9.00 am until its conclusion.

A copy of the Current Articles and the proposed New Articles can also be found in the Investors section of the Company's website at www.genusplc.com

**Resolution 18 – Notice Period for General Meetings**
Resolution 18, which will be proposed as a special resolution, seeks the approval of shareholders to reduce to 14 clear days the notice period required for a general meeting. The notice period required for general meetings (other than Annual General Meetings) for listed companies is 21 days but the Company may provide a shorter notice period of 14 clear days provided two conditions are met. The first condition is that the Company offers a facility for shareholders to vote by electronic means. This condition is met if the Company offers a facility, accessible to all shareholders, to appoint a proxy by means of a website. The second condition is that there is an annual resolution of shareholders approving the reduction of the minimum notice period from 21 days to 14 days. Annual General Meetings will continue to be held on at least 21 clear days' notice. It is intended that the shorter notice period would not be used as a matter of routine for general meetings but only where the flexibility is merited by the business of the meeting and is thought to be in the interests of the shareholders as a whole.

# Notice of Annual General Meeting continued

## APPENDIX 1

### SUMMARY OF THE PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

Under resolution 17, the Company is proposing to adopt the New Articles. Set out below is a summary of the principal changes made to the Current Articles, which are in addition to those set out in the explanatory notes for resolution 17 on page 161. The New Articles also include some other minor modernising and clarificatory amendments which are not detailed below. Article references below are to the New Articles.

**Disclosure of Interests (Article 38)**
The New Articles include changes in relation to the powers of the Company regarding notices served under Section 793 of the Act that require the disclosure of details of interests in shares in the Company. If there is a default in complying with a notice, the new powers allow the Company to require shares held in uncertificated form to be converted into certificated shares. The definition of what constitutes a default in supplying the information requested by the Company is stated in the New Articles to include the Company knowing, or having reasonable cause to believe, that the information provided is false or materially incorrect.

**Untraced shareholders (Article 39)**
As under the Current Articles, the Company may sell the shares of shareholders who have been untraced for a period of 12 years or more and use the proceeds of that sale for the purposes of its business. The former shareholder must currently be listed as a creditor in its accounts, so that they may subsequently claim the proceeds at any time. The New Articles treat the proceeds of such a sale as forfeited by the former shareholder, who will only be listed as a creditor for three years, after which they have no further right to claim the proceeds. Under the Current Articles, the Company is required to provide notice to untraced shareholders of its intention to sell their shares by way of an advertisement in a national newspaper and in a local newspaper. Under the New Articles, the Company must instead send a notice to the last registered address of the shareholder and use reasonable steps to trace the shareholder including, if appropriate, using a tracing agent.

**Notice of general meetings (Articles 41, 42 and 43)**
A number of technical amendments have been made to the provisions relating to calling and attending shareholder meetings to bring these in line with best practice.

Under the New Articles, if there are not sufficient Directors to form a quorum in order to call a general meeting, any shareholder may call a general meeting (there is no equivalent provision under the Current Articles).

Under the Current Articles, accidental failure to provide notice of a meeting to a shareholder or the non-receipt of a notice of a meeting by a shareholder will not invalidate the meeting. The New Articles clarify that, in addition, a failure to give notice due to circumstances outside the Company's control will not invalidate the meeting. This is designed to cover a postal strike or other similar situations.

**Quorum (Articles 44 and 45)**
The quorum for a general meeting under the Current Articles is three persons entitled to attend and vote, each being a shareholder present in person or by proxy or a corporate representative of a shareholder (and attending within 15 minutes of the time set for the meeting). Article 44 of the New Articles states that two persons (attending within 30 minutes) can constitute a quorum and makes it clear that two persons who are proxies for the same shareholder, or representatives of the same body corporate, can constitute a quorum for a general meeting.

**Amendments to resolutions (Article 54)**
If written notice is received of a proposed amendment to an ordinary resolution, the New Articles impose an additional condition to such amendment being accepted – that the proposed amendment does not, in the reasonable opinion of the Chairman of the meeting, materially alter the scope of the resolution. The New Articles state that only the Chairman of the meeting may propose an amendment to correct a clear error in a special resolution.

**Demand for a Poll (Article 56)**
The New Articles give a majority of the Directors present at the meeting the right to demand a poll as well as the Chairman of the meeting. The New Articles have also increased the minimum number of shareholders required to call a poll from three (as under the Current Articles) to five in order to bring this provision in line with the Act.

**Voting rights (Articles 62 and 67)**
The New Articles clarify that: (i) on a show of hands, corporate representatives have the same rights as the corporation would be entitled to; (ii) a proxy may have more than one vote on a show of hands if they have been instructed by more than one shareholder on how to vote; and (iii) a shareholder, proxy or corporate representative entitled to more than one vote does not need to use all of their votes, or cast the votes they use, in the same way.

The New Articles also state that the Company is not bound to enquire whether a proxy or corporate representative is voting in accordance with their appointing shareholders' instructions.

**Proxies (Articles 69 to 72)**
Various technical amendments have been made to the provisions relating to proxies.

The deadlines for receipt of termination of proxy authority have been brought into line with the deadlines for receipt of proxies. The New Articles also, in accordance with the Act, permit the Directors to determine whether non-working days should be taken into account for the calculation of the time periods for receipt of proxies.

**Corporate representatives (Article 75)**
The New Articles expressly confirm that corporations who are shareholders of the Company have the right to appoint multiple corporate representatives and, in line with best practice, also allow the Company to require a corporate representative to produce a certified copy of the resolution appointment before permitting them to exercise their powers.

**Number of Directors (Article 76)**
In line with normal practice, the New Articles lower the minimum number of Directors from three to two and do not prescribe a maximum number.

**Annual retirement of Directors (Article 81)**
The New Articles do not contain any of the provisions in the Current Articles relating to retirement by rotation of Directors at annual general meetings. Instead, in order to reflect what happens in practice, and consistent with the UK Corporate Governance Code, the New Articles provide that all Directors will retire annually and be subject to election at annual general meetings (with the exception of a Director appointed between the notice of meeting being sent out by the Company and the meeting, who will retire at the first annual general meeting for which notice is given after their appointment).

**Termination of a Director's appointment (Articles 84 and 85)**
The New Articles provide an additional means for shareholders to remove a Director by special resolution without the need to follow the special notice procedure set out in sections 168 and 169 of the Act. This is in addition to the statutory right in those sections for a shareholder to remove a Director by ordinary resolution and does not affect that right.

The New Articles provide that in the case of a Director who holds any executive office, he shall cease to be a Director if his executive appointment is terminated or expires and the Directors resolve that he should cease to be a Director. The New Articles do not include a provision which states that a Director's appointment may be terminated by a resolution of the Board in circumstances where the Director has been suffering mental ill health. This is in response to developments in mental health legislation and is in line with the removal of the equivalent provisions in the model articles for public companies.

**Borrowing powers (Article 93)**
The Board's borrowing power threshold remains at four times the amount of the Company's share capital and reserves. A number of technical amendments have been made to the borrowing powers in order to clarify how the constituent elements of the threshold are to be calculated. In particular: how the foreign currency calculation is carried out; allowing capital and reserves to be adjusted as the Directors may reasonably consider appropriate to reflect any change in the Group companies since the date of the last audited consolidated balance sheet of the Group and the inclusion of provisions on how any pension deficit or surplus should be treated. In line with best practice, the New Articles also remove the provision in the Current Articles which provide a thirty day grace period before there is a breach of the articles.

**Delegation to persons and Committees (Article 95)**
The New Articles follow a broader and simplified approach to delegation of powers by Directors, in line with the Act's model articles for public companies and other listed companies, allowing the Directors to delegate as they decide is appropriate.

**Directors' remuneration (Article 96)**
Under the Current Articles, the Company may pay fees to the Directors of up to £250,000 in aggregate each year (or such higher figure as may be approved by ordinary resolution) and may also pay additional fees for any special or extra services (for example in relation to Committee membership). These fees are exclusive of any salary or other remuneration paid to Executive Directors as employees. The basic limit was set some years ago, and the Directors' fees are in any event now approved by shareholders as part of the Directors' remuneration policy. To provide greater flexibility the New Articles increase the reference to the basic annual aggregate amount to £650,000, and continue to allow for further payments for specific services. The Board has no current plans to change its approach to the fees paid to Non-Executive Directors and such fees must in any event be in accordance with the Directors' Remuneration Policy as approved from time to time by shareholders.

**Other interests and offices (Articles 100 and 101)**
If a Director is interested in a transaction or is an officer of or employed by or interested in a body corporate in which the Company is interested, provided that he has disclosed his interest, the New Articles confirm that such interests, offices or employment will not infringe the duty in relation to conflicts as codified in the Act. The New Articles also contain standard exemptions from disclosure in relation to directorships of other companies in the Group.

# Notice of Annual General Meeting continued

**Dividend payment procedure and unclaimed payments (Articles 114 to 117)**
Although the Current Articles permit the payment of dividends by electronic means, the New Articles allow the Directors to determine how dividends are paid to shareholders, which method shall be the default method for paying dividends and whether shareholders may (or may not) make an election for a distribution channel other than the default. The Board has no current plans to change the payment arrangements but it is important that the Company is able to cater for new developments and changes in practice, including considering the efficiency and costs saving that would flow from a change to electronic only payment.

The New Articles provide that if the Company sells the shares of an untraced shareholder, then any dividend or other money unclaimed in respect of those shares will be forfeited after a period of three years.

**Scrip dividends (Article 118)**
The New Articles state that a resolution to authorise a scrip dividend can only be for a maximum three-year period, instead of the current five-year period. This amendment has been made to bring the New Articles in line with new institutional investor guidance. In addition, certain changes have been made for clarification in relation to the process for electing to receive scrip dividends.

**Notices and other communications (Articles 122, 125, 126 and 129)**
The New Articles also cover the service of notice in the event of a postal strike; it has been amended to allow the Company in such circumstances to serve notices only on those shareholders who receive notices via electronic means, provided that, as before, the Company also puts an advert in two national newspapers and sends a confirmatory hard copy notice if the postal service is available again within seven days of the meeting.

In relation to notices, documents or information sent by the Company to a shareholder, which have been returned undelivered on three consecutive occasions, the New Articles provide that the shareholder will only be entitled to be sent further communications upon provision of a new postal or electronic address to the Company.

**Destruction of documents (Article 138)**
The New Articles permit documents to be destroyed earlier than the relevant date authorised by the articles, provided that a copy of the document (whether made electronically, by microfilm, by digital imaging or by any other means) has been made which is not destroyed before that date.

**Change of name (Article 139)**
Under the New Articles, in line with the Act, the Company is permitted to change its name by a resolution of the Directors in addition to by special resolution of the shareholders.

**Power to indemnify Directors (Article 141)**
The provisions in the New Articles relating to the indemnification of Directors do not, unlike the Current Articles, set out the limitations of the Act in full but are still expressed to be subject to them. It is clarified that the provision also applies to directorships of all subsidiary companies.

## General Notes

This Notice is being sent to all members and to any person nominated by a member of the Company under section 146 of the Act to enjoy information rights. Information regarding the Annual General Meeting, including the information required by section 311A of the Act, is available from www.genusplc.com.

## Proxies

Members will find an attendance card and a form of proxy enclosed with this Notice. If you are attending the Annual General Meeting, you should bring the attendance card with you. Only holders of Ordinary Shares, or their duly appointed representatives, are entitled to attend, vote and speak at the Annual General Meeting. Any member so entitled may appoint one or more proxies to attend, speak and to vote instead of him or her. A proxy need not be a member of the Company but must attend the Annual General Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Your proxy must vote as you instruct and must attend the meeting for your vote to be counted. Details of how to appoint one or more proxies are set out in the notes to the proxy form. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

To be valid, a duly executed form of proxy for use at the Annual General Meeting together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a duly certified copy of such power or authority must be deposited at the offices of Equiniti Registrars, Freepost RTHJ-CLLL-KBKU, Equiniti, Aspect House, Spencer Road, LANCING, BN99 8LU at least 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof. Alternatively, proxies may be appointed by having an appropriate CREST message transmitted, if you are a user of the CREST system (further details are below). In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

To change your proxy instructions you may return a new proxy appointment using the methods set out above. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 6DA. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same meeting, the one which is last sent shall be treated as replacing and revoking the other or others.

Completion and return of a form of proxy will not preclude shareholders from attending the Annual General Meeting and voting in person if they wish to do so.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Act ('nominated persons'). Nominated persons may have a right under an agreement with the registered member who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

## Voting record date

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the Annual General Meeting is 6.30pm on 15 November 2016 (or if the Annual General Meeting is adjourned, members on the register of members not later than 6.30pm on the day that is two working days prior to the reconvened Annual General Meeting). Changes to entries on the register of members after the relevant time will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

## Documents on display

Copies of contracts of service and letters of appointment between the Directors and the Company and the New Articles will be available for inspection at the Registered Office of the Company during normal business hours until the conclusion of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to the Annual General Meeting until its conclusion.

## CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this Annual General Meeting to be held on 17 November 2016 at 11.00am and any adjournment(s) thereof by using the procedures described in the CREST Manual found on the Euroclear website www.euroclear.com. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK and Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in this Notice of Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

# Notice of Annual General Meeting continued

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK and Ireland Limited do not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001, as amended.

**Corporate Representatives**
Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

**Total Voting Rights**
As at 5 October 2016 (being the latest practicable date before publication of this Notice), the Company's issued share capital comprised 61,099,737 Ordinary Shares of 10 pence each. As at the date of this Notice, no shares are held by the Company in treasury. Each Ordinary Share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5 October 2016 is 61,099,737. The Company's website, referred to above, will include the contents of this Notice, information on the number of shares and voting rights and, if applicable, any shareholders' statements, shareholders' resolutions or shareholders' matters of business received by the Company after the date of this Notice.

**Questions**
Under section 319A of the Act, the Company must cause to be answered at the Annual General Meeting any question a member asks relating to the business being dealt with at the Annual General Meeting unless answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information; the answer has already been given on a website in the form of an answer to a question; or it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

**Requisition Rights**
Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on its website a statement setting out any matter relating to: (i) the audit of the Company's Accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on its website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Act to publish on its website.

**Voting at the meeting**
In order for the voting preferences of all shareholders including those who cannot attend the meeting but who validly appoint a proxy, to be taken into account, a poll will be conducted on all resolutions at the Annual General Meeting this year. Each shareholder and proxy present at the meeting will be invited to complete a poll card indicating how they wish to cast their votes in respect of each resolution. The results of the voting will be posted on the Company's website after the meeting. Except as provided above, members who have general queries about the Annual General Meeting should call Equiniti registrars on 0371 384 2290. Lines open 8.30am to 5.30pm, Monday to Friday (excluding UK public holidays). If calling from overseas, please call the Equiniti overseas helpline number of +44 121 415 7047. No other methods of communication will be accepted. You may not use any electronic address provided either in this Notice of Annual General Meeting, or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

# Notes

# Notes

# Advisers

**Secretary and Registered Office**
**Dan Hartley**
Matrix House
Basing View
Basingstoke
Hampshire RG21 4DZ
Registered Number 02972325

**Stockbrokers**
**Peel Hunt**
Moor House
120 London Wall
London EC2Y 5ET

**Liberum Capital Limited**
Ropemaker Place
Level 12
25 Ropemaker Street
London EC2Y 9LY

**Financial Adviser**
**HSBC Bank plc**
8 Canada Square
London E14 5HQ

**Auditor**
**Deloitte LLP**
Abbots House
Abbey Street
Reading RG1 3BD

**Solicitors**
**Herbert Smith Freehills LLP**
Exchange House
Primrose Street
London EC2A 2EG

**Bankers**
**Barclays Bank PLC**
2nd Floor
90–92 High Street
Crawley
West Sussex RH10 1BP

**Registrars**
**Equiniti Limited**
Aspect House
Spencer Road
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West Sussex BN99 6DA

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