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Genus plc

Preliminary Results for the year ended 30 June 2016

Significant Strategic Progress and Continued Profit Growth

Genus plc ('Genus', the 'Company' or the 'Group'), a leading global animal genetics company, announces its preliminary results for the year ended 30 June 2016.

		Actual currency		Constant currency **
Year ended 30 June	**2016**	**2015**	**Movement**	**Movement**
Adjusted results*	**£m**	**£m**	**%**	**%**
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 (p)	**60.7**	56.8	+7	+10
Statutory results				
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 (p)	**81.1**	65.7	+23	
Dividend per share (p)	**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. Refer to the Financial Review section for a reconciliation of adjusted results to statutory results.

** Constant currency percentage movements are calculated by restating FY16 results at the average exchange rates applied in FY15.

2016 Highlights

Financial Highlights

- 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[1] as expected of 88% (2015: 107%) after two years of exceptional performance above 100%

- After tax return on invested capital[2] 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[3]

- 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

Commenting, Karim Bitar, Chief Executive said:

"Genus performed well overall in 2016 with another year of double digit constant currency profit growth and substantial strategic progress in our R&D endeavours in addition to growth in key markets such as China. We established gene editing as a core strategic longer term growth platform in Genus that offers considerable opportunity in disease resistance which will benefit animals, customers and consumers. Our GSS technology is ready for commercial launch and we expect to have legal clarity in the coming months on when we will be able to bring it to market.

"To pursue our long-term growth objectives, we plan to increase R&D investment in FY17 and therefore expect broadly stable constant currency results, however exchange rates should provide a benefit to the reported numbers. Overall we expect to perform in line with market expectations. We are confident in the future of the business and are proposing a 10% increase in the dividend."

1 Cash conversion is the cash generated by operations £43.3m (2015: £50.7m) divided by adjusted operating profit from continuing operations £49.3m (2015: £47.2m).

2 After tax return on invested capital is adjusted operating profit including joint ventures less tax of 25.8% (2015: 26.0%), divided by net operating assets on a historic cost basis, excluding net debt and pension liability.

3 Based on adjusted results.

An analyst meeting will be held at 9.00am today at Buchanan's offices (107 Cheapside, London EC2V 6DN). A live audio feed will be available to those unable to attend this meeting in person. To connect to the web cast facility, please go

to the following link approximately 10 minutes (8.50am) before the start of the meeting:
http://vm.buchanan.uk.com/2016/genus080916/registration.htm

For further information please contact:-

Genus plc Tel: 01256 345970
Karim Bitar, Chief Executive
Stephen Wilson, Group Finance Director

Buchanan Tel: 0207 466 5000
Charles Ryland/Victoria Hayns

This announcement is available on the Genus website, www.genusplc.com

About Genus
Genus creates advances to animal breeding and genetic improvement by applying biotechnology and sells added value products for livestock farming and food producers. Its technology is applicable across all livestock species and is currently commercialised by Genus in the dairy, beef and pork food production sectors.

Genus's worldwide sales are made in over seventy-five countries under the trademarks 'ABS' (dairy and beef cattle) and 'PIC' (pigs) and comprise semen, embryos and breeding animals with superior genetics to those animals currently in production. Genus's customers' animals produce offspring with greater production efficiency, and quality, and use these to supply the global dairy and meat supply chains.

The Group's competitive edge has been created from the ownership and control of proprietary lines of breeding animals, the biotechnology used to improve them and its global supply chain, technical service and sales and distribution network.

With headquarters in Basingstoke, United Kingdom, Genus companies operate in over twenty-five countries on six continents, with research laboratories located in Madison, Wisconsin, USA.

Chief Executive's Review

FY16 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 FY16, 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™ 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 FY16, 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 verdicts 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 FY17, 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 FY17 resulting in profit for the year being similar to FY16 in constant currency. However, we anticipate a benefit from exchange rates, with sterling having declined sharply towards the end of FY16. Overall, we expect to make further strategic progress in FY17 and to perform in line with market expectations.

Karim Bitar

Chief Executive

7 September 2016

Financial and operating review

Financial Review

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 FY16 profits, it had a significant translational impact on the year-end balance sheet.

	Actual currency	Constant currency

Adjusted Profit Before Tax	2016 £m	2015 £m	Movement %	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
Research and development	**(34.4)**	(28.6)	(20)	(16)
Central costs	**(11.3)**	(11.1)	(2)	4
Adjusted operating profit	**49.3**	47.2	4	6
Attributable to non-controlling interests	**(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.

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 achieving 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.

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 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 programs, 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.

Performance by Species

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

	Actual currency			Constant currency
Revenue	2016 £m	2015 £m	Movement %	Movement %
Dairy and beef	**172.8**	183.4	(6)	(4)
Porcine	**207.5**	201.3	3	1

Research and development	**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 costs and research	**(19.3)**	(15.7)	(23)	(16)
	54.3	51.2	6	9

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.

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	**2015**
	£m	**£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:

	2016	**2015**
	£m	**£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).

	2016	2015
Cash Flow (before debt repayments)	**£m**	**£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. It is proposed that the final dividend will be paid on 2 December 2016 to the shareholders on the register at the close of business on 18 November 2016. 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

Review of Operations

Genus PIC

OPERATING REVIEW

	Actual currency			Constant currency
	2016	**2015**	**Movement**	**Movement**
	£m	**£m**	**%**	**%**
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

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 FY16. 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 FY16 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 FY16, 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

OPERATING REVIEW

	Actual currency			Constant currency
	2016	**2015**	**Movement**	**Movement**
	£m	**£m**	**%**	**%**
Revenue	**158.7**	167.8	(5)	(3)
Adjusted operating profit	**19.5**	24.0	(19)	(16)

Adjusted operating profit inc minority interest	**18.2**	23.5	(23)	(21)
Adjusted operating margin	**12.3%**	14.3%	(2.0)pts	(1.8)pts

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 FY16 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

OPERATING REVIEW

	Actual currency			Constant currency
	2016	**2015**	**Movement**	**Movement**
	£m	**£m**	**%**	**%**
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

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 re-opened 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.

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.

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.

Research and Development

OPERATING REVIEW

	Actual currency			Constant currency
	2016	**2015**	**Movement**	**Movement**

	£m	£m	%	%
Research	**8.0**	4.6	74	67
Porcine product development	**13.5**	11.6	16	12
Bovine product development	**12.9**	12.4	4	0
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.

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.

Strategic Risks

Risk description	How we manage risk	Risk change in FY16
Developing products with competitive advantage • Development programmes fail to produce best genetics for customers. • Increased competition to secure elite	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	No change in porcine but increased in bovine due to continuing trend to genomic bulls.

genetics.	customers' systems, to ensure the value added by our genetics remains competitive.	
Commercialising GSS technology • Launching a new product technology carries technical, production and financial risks. • 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. 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.	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 • Failure to successfully develop and commercialise gene-editing technologies due to technical, IP, market, regulatory or financial barriers. • '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.	Increased due to the discovery and pursuit of new gene editing applications and consequent higher investment in FY16 and beyond. All key initiatives are progressing through the R&D life cycle.
Capturing value through acquisitions • Failure to identify appropriate investment opportunities or to perform sound due diligence. • 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.	No change
Growing in emerging markets • 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 FY16 to discussing our strategy and the results of our operations in China.	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	Risk change in FY16
Protecting Intellectual Property ('IP') • 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.	No change
Ensuring biosecurity and continuity of supply • Loss of key livestock, owing to disease outbreak. • Loss of ability to move animals or semen freely (including across borders) due to disease outbreak, environmental incident or international trade sanctions. • 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.	No change

Financial Risks

Risk description	How we manage risk	Risk change in FY16
Managing agricultural market and	We continuously monitor markets and	No change

commodity prices volatility • Fluctuations in agricultural markets affect customer profitability and therefore demand for our products and services. • Increase in our operating costs, due to commodity pricing volatility.	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.	
Funding pensions • Exposure to costs associated with failure of third-party members of joint and several liabilities pension scheme. • 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.	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.

Group Income Statement
For the year ended 30 June 2016

Genus plc

	Note	**2016** **£m**	2015 £m
REVENUE	2	**388.3**	398.5
ADJUSTED OPERATING PROFIT	2	**49.3**	47.2
Adjusting items:-			
- Net IAS 41 valuation movement on biological assets	9	**(17.1)**	24.9
- Amortisation of acquired intangible assets	8	**(6.1)**	(6.1)
- Share-based payment expense		**(3.8)**	(1.4)
		(27.0)	17.4
Exceptional items:-			
- Pension related	3	**44.2**	0.4
- Litigation	3	**(6.9)**	(2.8)
- Acquisition and integration	3	**(0.2)**	(1.4)
- Other (including restructuring)	3	**(0.8)**	(1.3)
		36.3	(5.1)
Total adjusting and exceptional items		**9.3**	12.3
OPERATING PROFIT		**58.6**	59.5
Share of post-tax profit of joint ventures and associates retained		**6.9**	2.9
Finance costs	4	**(4.7)**	(4.8)
Finance income	4	**0.1**	0.2
PROFIT BEFORE TAX		**60.9**	57.8
Taxation	5	**(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	6		
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	4	**(4.6)**	(4.6)
ADJUSTED PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**49.7**	46.6
ADJUSTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	6		
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

Genus plc

	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	**(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	**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

Genus plc

	Note	**Called up share capital £m**	**Share premium account £m**	**Own shares £m**	**Trans-lation 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	7	-	-	-	-	-	(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 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	7	-	-	-	-	-	(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

Genus plc

	Note	**2016 £m**	2015 £m
ASSETS			
Goodwill	8	**86.0**	73.9
Other intangible assets	8	**78.0**	69.8
Biological assets	9	**264.6**	242.7
Property, plant and equipment		**61.8**	50.3
Interests in joint ventures and associates		**24.3**	19.6
Other investments		**3.6**	0.2
Deferred tax assets		**4.7**	7.8
TOTAL NON-CURRENT ASSETS		**523.0**	464.3
Inventories		**35.7**	32.2
Biological assets	9	**66.4**	50.2
Trade and other receivables	10	**78.1**	74.7

Cash and cash equivalents		**34.0**	21.3
Income tax receivable		**1.0**	0.4
Derivative financial asset		**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		**(65.1)**	(58.9)
Interest-bearing loans and borrowings		**(4.6)**	(12.2)
Provisions		**(1.2)**	(2.4)
Obligations under finance leases		**(1.1)**	(1.1)
Current tax liabilities		**(4.9)**	(6.3)
Derivative financial liabilities		**(0.5)**	(0.2)
TOTAL CURRENT LIABILITIES		**(77.4)**	(81.1)
Interest-bearing loans and borrowings		**(115.3)**	(77.4)
Retirement benefit obligations	11	**(44.5)**	(63.1)
Deferred tax liabilities		**(118.5)**	(105.2)
Derivative financial liabilities		**(12.6)**	(10.0)
Obligations under finance leases		**(2.7)**	(2.4)
TOTAL NON-CURRENT LIABILITIES		**(293.6)**	(258.1)
TOTAL LIABILITIES		**(371.0)**	(339.2)
NET ASSETS		**368.1**	305.1

	2016	2015
	£m	£m
EQUITY		
Called up share capital	**6.1**	6.1
Share premium account	**112.3**	112.2
Own shares	**(0.1)**	(0.1)
Translation reserve	**37.5**	(10.1)
Hedging reserve	**(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	**(11.4)**	(10.0)
Total non-controlling interest	**(6.4)**	(5.7)
Total equity	**368.1**	305.1

Group Statement of Cash Flows
For the year ended 30 June 2016

Genus plc

	Note	**2016**	2015
		£m	£m
NET CASH FLOW FROM OPERATING ACTIVITIES	12	**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)	14	**(3.5)**	(8.8)
Acquisition of investment		**(3.5)**	-
Acquisition of investment in joint venture		**(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	**34.0**	21.3

Notes to the Preliminary Results
For the year ended 30 June 2016

Genus plc

1. **REPORTING ENTITY**

Status of audit

The financial information given does not constitute the Company's statutory accounts for the year ended 30 June 2016 or the year ended 30 June 2015, but is derived from those accounts. Statutory accounts for the year ended 30 June 2015 have been delivered to the Registrar of Companies and those for the year ended 30 June 2016 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their reports, and did not contain statements under s. 498(2) or (3) Companies Act 2006.

Basis of preparation

The financial information for the year ended 30 June 2016 together with the comparative year has been computed in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Group Financial Statements are presented in Sterling, which is the Company's functional and presentation currency. All financial information presented in Sterling has been rounded to the nearest million at one decimal point.

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

While the financial information included in this preliminary announcement has been computed in accordance with IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in October 2016. These financial statements have also been prepared in

accordance with the accounting policies set out in the 2015 Annual Report and Financial Statements, as amended by the following new accounting standards.

New standards and interpretations
No new standards and interpretations have been adopted in the current period.

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 ventures'*, IAS 27*'Equity method in separate financial statements'*, IAS 1 *'Disclosure Initiatives'*, 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 method of depreciation and amortisation';*
- *'Improvements to IFRS 2012 - 2014 cycle'*;
- IFRS 9 '*Financial Instruments*';
- IFRS 14 *'Regulatory Deferral Response';*
- 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.

Going concern

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 twelve 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.

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.

This preliminary announcement was approved by the Board on 7 September 2016.

2. 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 R&D. 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

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**	2015
	£m	£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 costs	**(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 costs	**2.2**	1.6	**-**	-	**4.3**	3.3
Total	**7.9**	6.3	**7.0**	6.7	**20.9**	17.0

	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 3 provides details of these exceptional items.

We consider share-based payments 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	2015
	£m	£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	2015
	£m	£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

Revenue by type

	2016	2015
	£m	£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 4)	**0.1**	0.2
	388.4	398.7

3. EXCEPTIONAL ITEMS

Operating income/(expenses):	**2016** **£m**	2015 £m
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 11.

Litigation

Litigation includes legal fees of £5.4m (2015: £2.8m) related to the action by ABS Global, Inc. against Inguran, LLC (aka Sexing Technologies) and £1.5m ($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) unlawfullymaintains 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 filed an Answer and Counterclaim to the ABS Action, denying any anticompetitive activities, and alleging, among other matters, (i) that 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 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 ABS and Genus had proved that ST had wilfully maintained monopoly power in the market for sexed bovine semen processing in the US since July 2012, but that Genus had not proved that it 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) Genus should pay ST an up-front payment of $750,000 and an on-going royalty of $1.25 per straw on commercialisation of the GSS technology for the use of ST's '987 patent; (ii) Genus should pay ST an up-front payment of $500,000 up-front and anon-going royalty of $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 $750,000.

In response to the verdicts reached Genus 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. Genus 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. Genus plans to commercialise its GSS 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 14.

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.

4. NET FINANCE COSTS

	2016	2015
	£m	£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)

5. INCOME TAX EXPENSE

Income tax expense	**2016**	2015
	£m	£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/(income)		
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	**1.4**	0.7
Total income tax expense in the Group Income Statement	**12.0**	18.0

6. 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	2015
	000s	000s
Issued ordinary shares at 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

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	2015
	000s	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	2015
	£m	£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 3)	**(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 taxation	**36.9**	34.5
Effective tax rate on adjusted profit	**25.8%**	26.0%

7. DIVIDENDS

Amounts recognised as distributions to equity holders in the year:

	2016	2015
	£m	£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.

8. INTANGIBLE ASSETS

	Technology	**Brand, multiplier contracts and customer relationships**	**Separately identified acquired intangible assets**	**Software**	**Genus Sexed Semen**	**Patents, license and other**	**Total**	**Goodwill**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£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 14)	-	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 GS Sdevelopment 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 world-wide licence to use Caribou Biosciences, Inc.'s leading CRISPR-Cas9 gene editing technology platform.

9. BIOLOGICAL ASSETS

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**

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.

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% (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	**Porcine**	**Total**
	£m	**£m**	**£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	**Porcine**	**Total**
	£m	**£m**	**£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.

10. TRADE AND OTHER RECEIVABLES

	2016	2015
	£m	£m

	£m	£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.

11. 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. These schemes are closed to new members.

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	2015
	£m	£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.

Summary of movements in Group deficit during the year

	2016	2015
	£m	£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)

The (income)/expense is recognised in the following line items in the income statement

	2016	2015
	£m	£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 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).

12. NOTES TO THE CASH FLOW STATEMENT

	2016	2015
	£m	£m
Profit for the year	**50.3**	40.5
Adjustment for:		
Net IAS 41valuation 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.

13. 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 11 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 Milk Pension Fund. 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.

14. ACQUISITION OF SUBSIDIARIES

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, USA. 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 8)	**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.

15. NON-CONTROLLING INTEREST

	2016	2015
	£m	£m
Non-controlling interest	**5.0**	4.3
Put option over non-controlling interest	**(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

£0.4m of dividends were paid to non-controlling interests (2015: £nil).

16. POST BALANCE SHEET EVENTS

On 1 August 2016, the litigation commenced against Inguran, LLC (aka Sexing Technologies ('ST')). See note 3. On 10 August 2016, the jury determined that ABS and Genus had proved that ST had wilfully maintained monopoly power in the market for sexed bovine semen processing in the US since July 2012, but that Genus had not proved that it 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) Genus should pay ST an up-front payment of $750,000 and an on-going royalty of $1.25 per straw on commercialisation of the GSS technology for the use of ST's '987 patent; (ii) Genus should pay ST an up-front payment of $500,000 up-front and on-going royalty of $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 $750,000.

In response to the verdicts reached Genus 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. Genus 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. Genus plans to commercialise its GSS 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, 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.

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