

Company Registration No. 00716304

**Pig Improvement Company UK
Limited**

Report and Financial Statements

For the year ended 30 June 2017

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Pig Improvement Company UK Limited

Report and financial statements 2017

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Pig Improvement Company UK Limited

Officers and professional advisers

Directors

S Wilson
D Noonan
K Bitar
J Kramer

Secretary

C Crichton

Registered office

Matrix House
Basing View
Basingstoke
Hampshire
RG21 4DZ

Bankers

Barclays Bank PLC
Abingdon Marcham Road Branch
South Oxon Group
PO Box 42
Abingdon
Oxfordshire
OX14 1GU

Solicitors

Morgan Cole
3 West Way,
Oxford, OX2 0SZ

Auditor

Deloitte LLP
Statutory Auditor
2 Hardman Street
Manchester, United Kingdom
M3 3HF

Pig Improvement Company UK Limited

STRATEGIC REPORT

The directors present their strategic report and the audited financial statements for the year ended 30 June 2017. The company is a part of the Genus plc group.

Business review and principal activities

The principal activities of the company are the sale of breeding pigs and the receipt of royalty income from licensing the use of its intellectual property, trademarks and patents.

The upturn in market prices seen in Q4 prior year continued throughout the current year, with published prices on average 21.3% higher than in the prior year. This resulted in much more favourable conditions for the UK pig farmer and an improvement in their profitability. The overall strategy of the company remains to move business to a Royalty model where possible, and this has seen a further fall in the direct sales of pigs in the UK market.

Overseas operations continued to perform strongly and deliver to plan. The acquisition of Hermitage Genetics and the strategic collaboration on the semen supply chain with Hermitage AI Ltd will further strengthen the gene pool and provide operational and service excellence for our customers.

Review of the business

The directors consider the profit achieved before taxation of £13,338,000 (2016: £11,072,000) and the state of affairs of the Company to be satisfactory, given the economic climate. The directors remain confident about the group and individual company's future performances, which are further encouraged by the post year-end performance of the Company.

Activities

A summary of the main performance indicators is given below:

	2017 £'000	2016 £'000
Revenue	31,218	26,521
Operating profit	13,421	10,484
Profit before taxation	13,338	11,072

In the opinion of the directors, the following are the Company's key performance indicators:

- Revenue for the year to 30 June 2017 increased by 18%.
- Royalties for the year to 30 June 2017 increased by 18%.
- Profit before taxation grew 20%, from £11,072,000 to £13,338,000.

The improvement in the key performance indicators has been driven by improved market conditions and strong global performance of PIC products.

The company's balance sheet on page 13 shows that the company's financial position at the year end is strong in net asset terms due to the profit improvements and cash management. Net current assets have deteriorated due to the payment of a £5,000,000 dividend during the year.

The directors are confident about future prospects and do not anticipate any change in the nature of the business carried out by the company.

Pig Improvement Company UK Limited

STRATEGIC REPORT (continued)

Principal risks and uncertainties

The Board is responsible for the total process of risk management throughout the Company as well as forming an opinion on the effectiveness of this process. The Board monitors risk management activities and actively participates in discussions around risk topics raised.

The Board regularly reviews their principal risks and uncertainties and follows a consistent approach by identifying and prioritising 'high risk' areas. Mitigating actions and associated monitoring and assurance activities are identified for each 'high risk' area. In addition, responsible executive level employees have been identified to monitor and manage specific areas on behalf of the Company on an ongoing basis. This allows the Board to get a better understanding in the context within which risks occurs and identify probable areas for risk mitigation and organisational control.

The risk management process has identified certain key risk faced by the Company. The risks identified below do not necessarily comprise all those affecting the Company and the risks listed are not set out in any particular order of priority. Additional risks and uncertainties not presently known to the Company or the directors or that the Company or the directors currently deem immaterial may also adversely affect the Company's business or operations.

Product development and competitive edge

Development programme fails to produce best genetics for customers. Increased competition in the market reduces market share and margins.

We have dedicated teams within the Genus Group who align our product development to customer requirements, while our technical services help customers to make best use of our products. We frequently measure our performance against competitors in customers' systems to ensure the value added by our genetics remains competitive.

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 bio-security standards, with independent reviews throughout the year to ensure compliance. Within the Genus Group we continue to extend the geographical diversity of our production facilities, to avoid over-reliance on single sites.

Intellectual Property Protection

Genus-developed genetic material, methods and technology could become freely available to third parties. We have a global, cross-functional process to identify and protect our intellectual property. Our customer contracts and our selection of multipliers and joint venture partners include appropriate measures to protect our IP.

Human Resources

Failure to attract or retain skills and experience within our executive, management and employee cohorts.

We manage our talent risk through comprehensive people plans, covering recruitment, performance management, reward, succession planning, communication and engagement.

Pig Improvement Company UK Limited

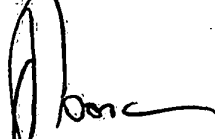
STRATEGIC REPORT (continued)

Going concern

The company's business activities are detailed above. Liquidity is managed at group level using long term group bank facilities and further details regarding the going concern assumption are included in note 1 to the financial statements. The directors are confident that, if required, group support will be forthcoming.

Having considered the current uncertain economic environment, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'D. Noonan', is written over the printed name.

D. Noonan

Director

01 December 2017

Pig Improvement Company UK Limited

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2017.

Directors

The directors who served the company during the year and to the date of signing of these accounts are as shown on page 1.

During the year and up to the date of these financial statements, the company had in place qualifying third party indemnity insurance for the benefit of all directors.

Dividends

Dividends were paid during the year of £5,000,000 (2016: £nil). The directors do not recommend the payment of a final dividend (2016: £nil).

Future developments

The directors expect the general level of activity to remain consistent with 2017 in the forthcoming year.

Research and development

The company continues to invest in research and development programmes to maintain its market leading position.

Financial risk management objectives and policies

The Group's Corporate Treasury function provides services to the Company, co-ordinates our access to domestic and international financial markets, and monitors and manages the financial risks relating to the Company's operations, through internal risk reports that analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

We seek to minimise the effects of these risks by hedging them using derivative financial instruments. Our use of financial derivatives is governed by policies approved by the Board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Board of directors regularly reviews our compliance with policies and exposure limits. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Key financial risks and exposures are monitored through a monthly report to the Board of directors, together with an annual Board review of corporate treasury matters.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange contracts to manage and hedge these exposures.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables (including balances with related parties). The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Pig Improvement Company UK Limited

DIRECTORS' REPORT (continued)

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mix of short term cash and intercompany debt finance.

Employment policies

The company's policies respect the individual regardless of gender, race or religion. Full and fair consideration is given to applications for employment from disabled people. The services of employees who become disabled are retained wherever possible and training, career development and promotion opportunities are provided where appropriate.

The Genus group has a well-established structure to communicate with employees at every level and to encourage their involvement regarding the group's performance and future activities.

Environmental policy

The directors recognise and accept that concern for the environment is an essential part of business strategy and seek to minimise risk to the environment by effective management of the company's activities.

Auditor

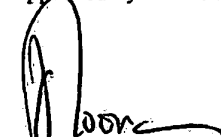
Each of the persons who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as the auditor. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of directors and signed on behalf of the Board



D. Noonan
Director

01 December 2017

Pig Improvement Company UK Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Pig Improvement Company UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Pig Improvement Company Limited (the 'company') which comprise:

- the income statement and statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the accounting policies; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Pig Improvement Company UK Limited (Continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Pig Improvement Company UK Limited (continued)

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

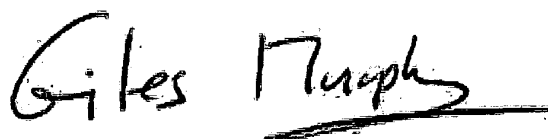
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



Giles Murphy (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Manchester, UK

01 December 2017

Pig Improvement Company UK Limited

Income statement Year ended 30 June 2017

	Notes	2017 £'000	2016 £'000
Revenue	2	31,218	26,521
Changes in stocks of finished goods and work in progress		257	293
Other operating income		(502)	113
Raw materials and consumables		(5,987)	(4,234)
Staff costs	5	(2,829)	(3,285)
Depreciation		(292)	(369)
Amortisation		(327)	(367)
Exceptional costs - restructuring		(978)	-
Other operating charges		(7,139)	(8,188)
Operating profit	3	<u>13,421</u>	<u>10,484</u>
Gain on disposal of fixed assets		24	309
Income from other fixed asset investments		52	331
Profit before net finance expense		<u>13,497</u>	<u>11,124</u>
Net finance expense	4	(159)	(52)
Profit before taxation		<u>13,338</u>	<u>11,072</u>
Tax charge on profit	7	(2,775)	(2,225)
Profit after taxation		<u>10,563</u>	<u>8,847</u>

All amounts are derived from continuing activities.

The accompanying notes form an integral part of these financial statements.

Statement of comprehensive income Year ended 30 June 2017

	Notes	2017 £'000	2016 £'000
Profit for the financial year		10,563	8,847
<i>Items that may not be reclassified subsequently to profit or loss</i>			
Actuarial loss on retirement benefit obligations	14	(443)	(470)
Tax relating to component of other comprehensive expense	7	70	65
Other comprehensive expense for the year		(373)	(405)
Total comprehensive income for the year		<u>10,190</u>	<u>8,442</u>

The accompanying notes form an integral part of these financial statements.

Pig Improvement Company UK Limited

Statement of changes in equity

Year ended 30 June 2017

	Note	Called up Share capital £'000	Share premium account £'000	Revaluat ion reserves £'000	Other reserves £'000	Profit and loss account £'000	Total equity £'000
At 1 July 2015		186	8	49	23	17,465	17,731
Actuarial loss on retirement benefit obligations	14	-	-	-	-	(470)	(470)
Tax relating to component of other comprehensive expense	7	-	-	-	-	65	65
Other comprehensive expense for the year		-	-	-	-	(405)	(405)
Profit for the year		-	-	-	-	8,847	8,847
Total comprehensive income for the financial year		-	-	-	-	8,442	8,442
Revaluation surplus		-	-	(4)	-	4	-
At 30 June 2016		186	8	45	23	25,911	26,173
Actuarial loss on retirement benefit obligations	14	-	-	-	-	(443)	(443)
Tax relating to component of other comprehensive expense	7	-	-	-	-	70	70
Other comprehensive expense for the year		-	-	-	-	(373)	(373)
Profit for the year		-	-	-	-	10,563	10,563
Total comprehensive income for the financial year		-	-	-	-	10,190	10,190
Dividend		-	-	-	-	(5,000)	(5,000)
Revaluation surplus		-	-	(45)	-	45	-
At 30 June 2017		186	8	-	23	31,146	31,363

A dividend of £2.69 per ordinary share was declared and paid during the year. The directors do not recommend the payment of a final dividend (2016: £nil).

The accompanying notes form an integral part of these financial statements.

Pig Improvement Company UK Limited

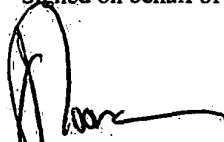
Balance sheet As at 30 June 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	8	6,027	6,354
Tangible assets	9	41	714
Investments	10	30,876	14,086
Deferred tax asset	16	424	491
		<u>37,368</u>	<u>21,645</u>
Current assets			
Stocks	11	203	319
Debtors	12	3,868	10,732
Cash at bank and in hand		806	663
		<u>4,877</u>	<u>11,714</u>
Creditors: amounts falling due within one year	13	(5,623)	(5,923)
Net current (liabilities)/assets		<u>(746)</u>	<u>5,791</u>
Total assets less current liabilities		<u>36,622</u>	<u>27,436</u>
Retirement benefit obligations	14	(1,528)	(1,263)
Provisions	15	(3,731)	-
		<u>31,363</u>	<u>26,173</u>
Net assets		<u>31,363</u>	<u>26,173</u>
Capital and reserves			
Called up share capital	17	186	186
Share premium account		8	8
Revaluation reserve		-	45
Other reserves		23	23
Profit and loss account		31,146	25,911
		<u>31,363</u>	<u>26,173</u>
Shareholder's funds		<u>31,363</u>	<u>26,173</u>

The financial statements of Pig Improvement Company UK Limited (registration number 0716304) were approved by the Board of Directors and authorised for issue on 01 December 2017.

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Board of Directors


D. Noonan
Director

Pig Improvement Company UK Limited

Notes to the financial statements Year ended 30 June 2017

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

General information and basis of accounting

Pig Improvement Company UK Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act and registered in England. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the strategic report on pages 2 to 4.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Pig Improvement Company Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Pig Improvement Company Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in relation to, financial instruments, presentation of a cash flow statement, share based payments, intra-group transactions, remuneration of key management personnel and exposure to financial risks and financial assets and liabilities defined as financial instruments.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report. The Company is expected to trade profitably for the foreseeable future. The Company participates in the Genus Group's centralised treasury arrangements and shares banking arrangements, including the provision of cross guarantees, with its ultimate parent Genus plc and fellow subsidiaries.

The directors, having assessed the responses of the directors of Genus plc to their enquiries, and having received confirmation regarding its continued support, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Genus Group to continue as a going concern or its ability to continue to trade with the current banking arrangements.

On the basis of their assessment of the Company and the Group's financial position and of the enquiries made of the directors of Genus plc, the company's directors have a reasonable expectation that the Company and Group will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Consolidation

The Income Statement and Balance Sheet are those of the company. Consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of Genus plc, a company incorporated in the United Kingdom (see note 20) whose consolidated accounts can be obtained from www.genusplc.com. The company has taken advantage of the exemption from the requirement to produce consolidated financial statements in accordance with Section 400 of the Companies Act 2006.

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Income statement items in overseas currencies are translated at average exchange rates. Foreign currency denominated monetary assets and liabilities are translated at rates ruling at the balance sheet date. Monetary exchange gains and losses are taken to the Income statement account.

Pig Improvement Company UK Limited

Notes to the financial statements Year ended 30 June 2017

1. Accounting policies (continued)

Revenue

Revenue is the value of sales and royalties receivable from customers, excluding VAT, net of discounts and other sale-related costs. The principal components of revenue are:

- sale of porcine semen and porcine breeding animals, which we recognise when risks and rewards transfer to the customer and;
- royalty is recognised when receivable.

Fixed asset investments

Fixed asset investments, including those in subsidiaries and joint ventures, are stated at cost less provision for impairment in value.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) **Year ended 30 June 2017**

1. Accounting policies (continued)

Tangible fixed assets excluding breeding stock

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment except for certain freehold land and buildings which are stated at valuation less accumulated depreciation.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Freehold land is not depreciated. Freehold buildings are depreciated by equal annual instalments over their estimated useful lives up to a maximum period of 40 years. Plant and equipment is depreciated straight-line over periods which range from 4 to 10 years and which do not exceed their anticipated useful lives.

Breeding stock

Breeding animals in genetic nucleus, daughter nucleus and production nucleus herds that are classified as Maiden Gilts, In-Pig or Empty Sows and Stock Boars are held for breeding purposes on the company's farms. These breeding animals are classified as fixed assets and stated at cost less depreciation and are depreciated on a straight line basis over their estimated lives of 18 months.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 10 years. Provision is made for any impairment.

Intangible assets

Intangible assets that we have acquired in a business combination since 1 April 2005 are identified and recognised separately from goodwill, where they meet the definition of an intangible asset and we can reliably measure their fair values. Their cost is their fair value at the acquisition date.

After their initial recognition, we report these intangible assets at cost less accumulated amortisation and accumulated impairment losses. This is the same basis as for intangible assets acquired separately.

The estimated useful lives for intangible assets are as follows:

Intellectual property rights (Porcine genetics technology)	20 years – straight line
--	--------------------------

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value. Cost represents purchase price or production costs including labour and attributable overheads, based on normal levels of activity, and is calculated using the weighted average method. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving and defective items where appropriate.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) **Year ended 30 June 2017**

1. Accounting policies (continued)

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Derivative financial instruments

The company uses forward exchange contracts to manage foreign exchange risk.

The fair values of forward exchange contracts are their quoted market price at the balance sheet date, which is the present value of the quoted forward price, any movement in the valuation is recognised immediately in the profit or loss account.

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.
- (b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.
- (d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) **Year ended 30 June 2017**

1. Accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Interest income and interest payable

We recognise interest income and interest payable in the income statement, as they accrue.

Provisions

A provision is recognised when group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are discounted to present value.

Pensions

In respect of the defined benefit scheme, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the year until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Exceptional items

The Company presents exceptional items separately, as we believe it helps to improve the understanding of the Company's underlying performance.

In determining whether an item should be presented as exceptional, we consider items which are material either because of their size or their nature, and those which are non-recurring. For an item to be considered as exceptional, it must initially meet at least one of the following criteria:

- it is a one off material item;
- it has been directly incurred as the result of either an acquisition and/or integration or other major restructuring programme;
- it has been previously classified as an exceptional item, and as such consistent accounting treatment is being applied; or
- it is unusual in nature e.g. outside the normal course of business.

If an item meets at least one of the criteria, we then exercise judgement as to whether the item should be classified as exceptional.

Pig Improvement Company UK Limited

Notes to the financial statements (continued)

Year ended 30 June 2017

1. Accounting policies (continued)

Employee benefits

The company recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 6 months. The provision is measured at the salary cost payable for the period of absence.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Management services were carried out during the year to other group companies. These services were carried out throughout the whole year and were recognised in line with the Company's general policy of recognising revenue when goods are delivered/services provided.

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods/provision of services set out in FRS 102 Section 23 *Revenue* and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods. The directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate.

Key source of estimation uncertainty

Impairment of investments and intangible assets

Determining whether investments and intangible assets are impaired require an estimation of the value-in-use of the cash-generating units. In arriving at the value-in-use an estimation of the future cash flows of cash-generating units and selecting appropriate discount rates is required to calculate present values, a process which involves estimation.

Defined benefit pension scheme

Amounts recorded in the financial statements in respect of defined benefit pension schemes are also based on significant estimates, being discount rate and mortality assumptions (see note 14).

Deferred contingent consideration

When valuing the contingent consideration payable on acquisitions, the Company considers various factors including the performance of the acquired entity since acquisition together with its expected performance to the end of the earn-out period.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

2. Revenue

	2017 £'000	2016 £'000
Royalties receivable from group undertakings	12,527	10,643
Sales to group undertakings	435	648
External sales	18,256	15,230
	<u>31,218</u>	<u>26,521</u>

All revenue derives from trading activities originating in the United Kingdom.

The revenue and profit before taxation are attributable to the company's principal activities. External sales are split by geographical destination as follows:

	2017 £'000	2016 £'000
United Kingdom	5,687	6,315
Rest of Europe	4,214	2,973
Other	8,355	5,942
	<u>18,256</u>	<u>15,230</u>

3. Operating profit

The following have been charged/(credited) before arriving at operating profit:

	2017 £'000	2016 £'000
Auditor's remuneration		
Audit fees	33	33
Operating lease costs		
- plant and machinery	56	97
- other	154	217
Depreciation of fixed assets		
Owned tangible assets	292	369
Amortisation	327	367
Research and development	3,304	3,897
Group management charge/(income)	502	(112)
	<u></u>	<u></u>

There were no non-audit fees payable to the company's auditor (2016: £nil).

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

4. Net finance expense

	2017 £'000	2016 £'000
Other interest receivable and similar income		
Other interest receivable and similar income	995	370
Interest payable and similar charges		
Net interest payable in respect of pension scheme	(32)	(33)
Other interest payable and similar charges	(1,122)	(389)
	(1,154)	(422)
Net finance expense	(159)	(52)

Included in other interest receivable and similar income are exchange gains of £976,000 (2016: £341,000) arising on the translation at year end of monetary assets and liabilities denominated in foreign currency and crystallised foreign currency denominated transactions during the year.

Included in other interest payable and similar charges are exchange losses of £1,029,000 (2016: £222,000) arising on the translation at year end of monetary assets and liabilities denominated in foreign currency and crystallised foreign exchange losses on foreign currency denominated transactions during the year.

5. Employees

	2017 £'000	2016 £'000
Wages and salaries	2,601	2,968
Social security costs	148	198
Pension costs	80	119
	2,829	3,285

The average monthly number of employees (excluding directors) during the year was as follows:

	2017 No.	2016 No.
Production and service	19	26
Sales	4	9
Administration	5	6
	28	41

The company operates a defined contribution pension scheme for the benefit of the employees. The assets of the defined contribution scheme are administered by trustees in a fund independent from those of the company. The unpaid contributions outstanding at year end are £nil (2016: £nil).

6. Directors

None of the directors received any remuneration, or other benefits, in respect of their services as directors of the company for the year ended 30 June 2017 and 30 June 2016. The directors are paid by other group companies for their services to the group as a whole. The allocation to this company is £nil (2016: £nil).

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

7. Tax charge on profit

Taxation comprises:

	2017 £'000	2016 £'000
Current tax on profit		
UK corporation tax	2,615	2,102
Double tax relief	(350)	(434)
Overseas withholding tax	357	439
Adjustments in respect of prior years	16	140
Total current tax	2,638	2,247
Deferred taxation		
Origination and reversal of timing differences	150	22
Effect of change in tax rate	-	29
Adjustment in respect of prior years	(13)	(73)
Total deferred tax (note 16)	137	(22)
Total tax on profit	2,775	2,225
Total current and deferred tax relating to items of other comprehensive income	(70)	(65)
	2,705	2,160

Factors affecting current tax charge for the year

	2017 £'000	2016 £'000
Profit before taxation	13,338	11,072
United Kingdom corporation tax at 19.75% (2016: 20.00%) on profit	2,634	2,215
Effects of:		
- Expenditure/(income) not deductible/(taxable) for tax purposes	139	(25)
- Dividend income not taxable in determining taxable profits	(10)	(66)
- Foreign tax	7	5
- Adjustment in respect of prior year	3	67
- Change in tax rate	2	29
Total tax charge on profit	2,775	2,225

The Finance Act 2016, which provides for the reduction in the main rate of corporation tax from 19% to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

8. Intangible fixed assets

	Goodwill £'000	Intellectual property rights £'000	Total £'000
Cost			
At 1 July 2016	3,401	7,395	10,796
At 30 June 2017	3,401	7,395	10,796
Accumulated depreciation			
At 1 July 2016	3,401	1,041	4,442
During the year	-	327	327
At 30 June 2017	3,401	1,368	4,769
Net book value			
At 30 June 2017	-	6,027	6,027
At 30 June 2016	-	6,354	6,354

Intangible assets are purchased intellectual property rights from Génétiporc Inc.

The goodwill related to the acquisition of the trademarks, intellectual property and contract rights of Agricola Genetico Porcina Ltda, the former PIC franchisee in Chile.

9. Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Breeding stock £'000	Total £'000
Cost or deemed cost				
At 1 July 2016	481	2,252	456	3,189
Additions	-	27	254	281
Disposals	(481)	(2,121)	(710)	(3,312)
At 30 June 2017	-	158	-	158
Accumulated depreciation				
At 1 July 2016	406	1,866	203	2,475
Charge for the year	4	82	206	292
Disposals	(410)	(1,831)	(409)	(2,650)
At 30 June 2017	-	117	-	117
Net book value				
At 30 June 2017	-	41	-	41
At 30 June 2016	75	386	253	714

In the opinion of the directors, the aggregate value of tangible fixed assets is not less than the aggregate amount at which those assets are stated in the balance sheet.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

10. Fixed asset investments

	Shares in subsidiary undertakings £'000	Shares in associate undertaking £'000	Loan to associate undertaking £'000	Other investments £'000	Total £'000
Cost					
At 1 July 2016	4,650	3,654	4,740	3,620	16,664
Additions	19,669	-	-	-	19,669
Loan repayment	-	-	(3,039)	-	(3,039)
Effect of movement in exchange rate	-	-	160	-	160
At 30 June 2017	24,319	3,654	1,861	3,620	33,454
Provision for impairment					
At 1 July 2016	2,438	-	-	140	2,578
At 30 June 2017	2,438	-	-	140	2,578
Net book value					
At 30 June 2017	21,881	3,654	1,861	3,480	30,876
At 30 June 2016	2,212	3,654	4,740	3,480	14,086

Shares in subsidiary undertakings

During the year the Company purchased the entire share capital of Hermitage Genetics Designated Activity Company and Morganite Investments Limited for a total consideration of £19,669,000, comprising of £15,279,000 of cash and £4,390,000 of deferred contingent consideration, which is the maximum deferred contingent consideration payable. The deferred contingent consideration is payable on certain conditions being met by the seller as well as trading performance of the business.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

10. Fixed asset investments (continued)

The company's subsidiary undertakings at 30 June 2017 are as follows:

	Registered office and Country of incorporation	Class of shares and nominal value	Percentage of nominal value of issued shares held	Nature of business	Net assets at 30 June 2017 £'000	Retained profit for the year £'000
National Pig Development Company Limited	Matrix House, Basing View, Basingstoke, Hampshire, RG21 4DZ.	Ordinary £2	100%	Non trading	-	-
PIC Polska Sp. z o.o.	ul. Gwiazdzista 7 lok.2,01-651. Warszawa Poland	Ordinary	100%	Supply of dairy and beef semen	538	292
Hermitage Genetics Designated Activity Company	Riverside one, Sir John Rogerson's Quay, Dublin 2 Ireland	Ordinary	100%	Porcine	462	-
Morganite Investments Limited	Riverside one, Sir John Rogerson's Quay, Dublin 2 Ireland	Ordinary	100%	Non trading	2,634	-

Shares in joint ventures and associate undertakings

The company's associate undertaking at 30 June 2017 are as follows:

	Country of incorporation	Class of shares and nominal value	Percentage of nominal value of issued shares held	Nature of business
Xianyang Yongxiang Agriculture Technology Co. Ltd	China	Registered capital RMB 70,588,000 yuan	49%	Pig breeding

Other investments

In the prior year, we invested £3,461,000 (\$5.0m) into a strategic non-controlling interest of 5% in Caribou Biosciences, Inc. These shares are not held for trading and accordingly are classified as available for sale.

The company also holds various trade investments in agricultural and research companies.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

11. Stocks

	2017 £'000	2016 £'000
Livestock	203	225
Consumables	-	94
	<u>203</u>	<u>319</u>

In the opinion of the directors, there is no material difference between the book value of stocks and their replacement cost at 30 June 2017.

12. Debtors

	2017 £'000	2016 £'000
Trade debtors	1,827	1,351
Amounts owed by parent undertaking	44	6,726
Amounts owed by fellow subsidiary undertakings	444	1,755
Amounts owed by subsidiary undertakings	65	40
Other taxation and social security	271	-
Other debtors	26	-
Prepayments and accrued income	1,122	860
Derivative financial asset (see note 19)	69	-
	<u>3,868</u>	<u>10,732</u>

Amounts owed by group undertakings are unsecured and repayable on demand.

13. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	860	382
Amounts owing to parent undertaking	1,467	61
Amounts owing to fellow subsidiary undertakings	421	2,869
Corporation tax	265	168
Other taxation and social security	-	31
Other creditors	21	22
Contingent deferred cash consideration (see note 15)	659	-
Accruals and deferred income	1,930	1,897
Derivative financial liability (see note 19)	-	493
	<u>5,623</u>	<u>5,923</u>

Amounts owing to group undertakings are unsecured and payable on demand.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

14. Retirement benefit obligations

The Company sponsors the National Pig Development Company Limited Retirement Benefits Scheme, a funded defined benefit pension scheme in the UK. The Scheme is administered within a trust which is legally separate from the Company. The Trustees are appointed to act in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustees are also responsible for the investment of the Scheme's assets.

The Scheme provides pensions and cash sums to members on retirement and to their dependants on death. Members who leave service before retirement are entitled to a deferred pension. The scheme closed to accrual of benefits on 31 March 1996.

The Company pays regular contributions aimed at removing the funding deficit as determined by regular actuarial valuations, which are usually carried out every three years. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

Responsibility for making good any deficit within the scheme lies with the Company and this introduces a number of risks for the Company. The major risks are: interest rate risk; inflation risk; investment risk; longevity risk. The Company and Trustees are aware of these risks and manage them through appropriate investment and funding strategies. The Trustees manage governance and operational risks through a number of internal controls policies, including a risk register.

A formal actuarial valuation has been carried out with an effective date of 30 June 2014. The results of this valuation have been projected to 30 June 2016 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

On the 20 March 2015, the company became the sponsoring employer of the National Pig Development Company Limited Retirement Benefits Scheme, which is a defined benefit pension scheme being run as a closed and paid up scheme. The scheme has no active members.

An actuarial valuation of the scheme was last carried out as at 30 June 2014 by the scheme's actuary Xafinity. The contribution rate increased to £210,000 per annum, payable by equal monthly instalments with effect from 1 July 2015.

The financial assumptions used to calculate the scheme liabilities are:

	2017	2016	2015	2014	2013
Increases for pensions in payment	3.10%	2.7%	3.1%	3.2%	3.4%
Liability discount rate	2.65%	2.8%	3.8%	4.2%	4.6%
Inflation assumption	3.15%	2.7%	3.1%	3.2%	3.4%
Revaluation of deferred pensions	2.05%	1.6%	2.0%	2.2%	3.4%

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

14. Retirement benefit obligations (continued)

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 2017, 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 (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).

The following table shows the assumptions used for all schemes and illustrates the life expectancy of an average member retiring at age 65 at the balance sheet date and a member reaching age 65 in 20 years' time.

		2017 Years	2016 Years
Retiring at balance sheet date at age 65:	Male	23.0	22.9
	Female	25.2	25.1
Retiring at age 65 in 20 years time:	Male	24.7	24.6
	Female	27.0	26.9

The amounts recognised in the statement of financial position are as follows:

	2017 £'000	2016 £'000
Total market value of assets	5,237	5,253
Present value of scheme liabilities	(6,765)	(6,516)
Deficit in the scheme	<u>(1,528)</u>	<u>(1,263)</u>

An analysis of the amount that has been charged to other finance income is as follows:

	2017 £'000	2016 £'000
Expected return on pension scheme assets	145	190
Interest on pension scheme liabilities	(177)	(223)
Net expense	<u>(32)</u>	<u>(33)</u>

Amounts recognised in the statement of comprehensive income:

	2017 £'000	2016 £'000
Actual return less expected return on pension scheme assets	(12)	49
Actuarial losses arising from changes in financial assumptions	(431)	(720)
Actuarial gains arising from changes in demographic assumptions	-	201
Actuarial loss recognised in other comprehensive income	<u>(443)</u>	<u>(470)</u>

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

14. Retirement benefit obligations (continued)

Movements in deficit during the year:

	2017 £'000	2016 £'000
Deficit in scheme at start of the year	(1,263)	(972)
Movement in year:		
Contributions	210	212
Other finance charges	(32)	(33)
Actuarial loss	(443)	(470)
Deficit in scheme at end of year	<u>(1,528)</u>	<u>(1,263)</u>

Reconciliation of opening fair value of plan assets to closing fair value of plan assets:

	2017 £'000	2016 £'000
Fair value of plan assets at start of the year	5,253	4,967
Movement in year:		
Expected return on plan assets	(12)	49
Contributions by the company	210	212
Benefits paid	(359)	(165)
Interest income	145	190
Fair value of plan assets at end of year	<u>5,237</u>	<u>5,253</u>

Reconciliation of opening present value of benefit obligations to closing present value of benefit obligations:

	2017 £'000	2016 £'000
Present value of plan obligations at start of the year	(6,516)	(5,939)
Movement in year:		
Interest cost	(177)	(223)
Actuarial losses arising from changes in financial assumptions	(431)	(720)
Actuarial gains and losses arising from changes in demographic assumptions	-	201
Benefits paid	359	165
Present value of plan obligations at end of year	<u>(6,765)</u>	<u>(6,516)</u>

Pig Improvement Company UK Limited

Notes to the financial statements (continued)

Year ended 30 June 2017

14. Retirement benefit obligations (continued)

The return on scheme assets

	2017	2016
	£'000	£'000
Interest income	145	190
Return on scheme assets (excluding amount included in net interest amount)	(12)	49
Present value of plan obligations at end of year	<u>133</u>	<u>239</u>

The assets in the scheme were:

	2017	2016
	£'000	£'000
Matching		
Liability Driven Investments	1,571	1,540
Return seeking		
Diversified growth funds	3,626	3,601
Cash	<u>40</u>	<u>112</u>
Total assets	<u>5,237</u>	<u>5,253</u>

The scheme has no investments in the Company or in property occupied by the Company.

15. Provisions

	Contingent deferred consideration
	£'000
Balance at 1 July 2016	-
On acquisition	4,390
Balance at 30 June 2017	<u>4,390</u>
Current (see note 13)	659
Non-current	3,731
Balance at 30 June 2017	<u>4,390</u>

Contingent deferred cash consideration relates to the acquisition of Hermitage Genetics and is subject to certain conditions being met by the seller. The amount disclosed is the maximum amount payable as detailed in note 10.

Pig Improvement Company UK Limited

Notes to the financial statements (continued) Year ended 30 June 2017

16. Deferred taxation asset

	2017 £'000	2016 £'000
Accelerated capital allowances	140	155
Short term timing differences	24	109
Pension related	260	227
	<u>424</u>	<u>491</u>
		£'000
Balance at 1 July 2016		491
Origination and reversal of timing differences		(137)
Recognised directly in equity		70
		<u>424</u>
Balance at 30 June 2017		<u>424</u>

The closing deferred tax asset at 30 June 2017 has been calculated at 17% reflecting the tax rate at which the deferred tax asset is expected to be utilised in future periods.

17. Share capital

	2017 £'000	2016 £'000
Allotted, issued, called up and full paid: 1,857,164 ordinary shares of 10p each	<u>186</u>	<u>186</u>

The share premium represents the premium paid for ordinary shares.

The profit and loss reserve represents cumulative profit and losses.

18. Operating lease commitments

Total commitments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Operating leases				
Total commitments which are payable:				
Within one year	-	31	5	-
Between one and five years	-	244	34	146
	<u>-</u>	<u>275</u>	<u>39</u>	<u>146</u>

Pig Improvement Company UK Limited

Notes to the financial statements (continued)

Year ended 30 June 2017

19. Derivatives and other financial instruments

Fair values

The fair market values of financial assets which have been calculated by the relevant financial institution, together with the carrying amounts shown in the balance sheet, are as follows:

	2017		2016	
	Carrying amounts £'000	Fair value £'000	Carrying amounts £'000	Fair value £'000
Currency rate swap	69	69	493	493

Details of the significant accounting policies and methods adopted are disclosed in note 1 to the financial statements.

We have categorised financial instruments held at valuation into a three-level fair value hierarchy, based on the priority of the inputs to the valuation technique in accordance with FRS 102. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, we base the category level on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety. We have estimated the fair values of the Company's outstanding interest rate swaps by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by FRS 102. We have not categorised any financial instruments as Level 1 or Level 3.

20. Parent undertaking

The company's ultimate controlling party and parent undertaking is Genus plc, a company registered in England and Wales. Genus plc is the largest and smallest group, of which the company is a member, for which consolidated accounts are prepared. Copies of the financial statements of Genus plc are available from its registered office whose address is as follows:

Matrix House
Basing View
Basingstoke
Hampshire
RG21 4DZ

21. Contingent liabilities

The company has entered into cross guarantees to the group's bank in respect of the borrowings of its parent. At 30 June 2017 the total contingent liability in respect of group borrowings was £130.3m (2016: £93.9m).