Aviagen International Finance Limited

Annual report and consolidated financial statements

Registered number 04768827

30 June 2016

Contents

Directors and advisers

Directors	CP Hill J Schlaman
Secretary	CP Hill
Auditor	KPMG LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Solicitors	Freshfields 65 Fleet Street London EC4Y 1HS
Registered office	Stratford Hatchery, Alscott Industrial Estate Atherstone on Stour Stratford-Upon -Avon Warwickshire CV37 8BH

Strategic report

The directors present their strategic report and the audited financial statements for the year ended 30 June 2016.

Principal activities

The company is a holding company. The principal activities of the group are the selective breeding of poultry and the production and distribution of poultry breeding stock worldwide.

Business review

The group achieved another good result for the year ended 30 June 2016. Operating profit increased from $112,081,000 in the previous year to $127,425,000 due to generally good product performance and business conditions throughout the group. Profit before tax increased to $134,499,000 from $114,529,000. Turnover at $582,044,000 was up $24,186,000 (4.3%) from the previous fiscal year.

The principal risks and uncertainties affecting the business include the following:

- Disease – the group abides by strict bio-security procedures to maintain disease-free production facilities. These facilities are strategically located worldwide to minimize the impact of import/export restrictions on deliveries to customers.
- Feed costs – the worldwide change in demand for corn, soy and wheat may impact feed costs in the current year.
- Energy costs – any increases in the cost of energy may negatively impact production and other costs.
- Foreign currency exchange – the group closely monitors short and medium term exchange rates and hedges against currency fluctuations relating to transactions as it deems necessary.
- Environmental risks – the group places considerable emphasis upon environmental compliance within the business and not only seeks to ensure ongoing compliance with relevant legislation, but also strives to ensure that environmental best practices are incorporated into its practices.
- Government regulation – the group regularly monitors forthcoming and current legislation and other regulatory activities to minimise any negative impact to the business. The group is aware that the United Kingdom's decision to leave the European Union brings additional principal risks and uncertainties. This risk is being monitored by the group.
- Pension funding risk – the group operates significant pension plans as detailed in note 20. The funding of the UK pensions at 30 June 2016 was 60% in equities and 40% in other assets. The group is subject to funding risks, principally poor performance of the equity investments and increased longevity of the members. Such risks could result in increased contributions by the group to the pension schemes.
- New product, project and technology risk – the group develops new technologies and introduces new products for production. All new technologies and products involve business risk both in terms of possible abortive expenditure, risk to reputation and potential customer claims or onerous contracts. Such risks may materially impact the group. All appropriate measures are taken to protect the group's intellectual property rights and to minimise the risk of infringement of third-party rights.
- Competitive risk – the group operates in highly competitive markets. Product innovations or technical advances by competitors could adversely affect the group. The diversity of operations reduces the possible effect of action by any single competitor. The group invests in research and development in order to sustain competitive advantage and also works continually to ensure that its cost base is competitive.

Strategic report *(continued)*

Key areas of strategic development and performance of the business include:

- Sales and marketing - new and replacement business is being won continually; new markets have been developed in line with the group's strategy. Key customer relationships are monitored on a regular basis.
- Production - new products continue to be developed for both existing and developing markets; production efficiencies have been gained and new initiatives for process and efficiency improvements are constantly being developed.
- Health and Safety - accident and absenteeism rates have fallen and the group continues to seek ways of ensuring that a safe and healthy working environment is progressively improved.
- Environment - new methods of achieving greater environmental effectiveness are continually being examined.

Key financial performance indicators include the monitoring and management of profitability and working capital.

Key non-financial performance indicators include the monitoring of our employees' health and safety in addition to the group's environmental impact and energy consumption.

	2016	2015	Measure
Financial			
Return on capital	**21.05%**	**21.12%**	Profit after tax/total assets less current liabilities
Current ratio	**1.6:1**	**1.3:1**	Current assets: current liabilities
Stock turnover	**5.8**	**6.7**	Turnover/stock
Creditor days	**25**	**37**	Trade creditors/cost of sales x 365
Sales per employee ($000)	**226**	**224**	Turnover/average number of employees

By order of the board

CP Hill
Company Secretary

Stratford Hatchery
Atherstone on Stour
Stratford-Upon-Avon
Warwickshire
CV37 8BH

13 December 2016

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2016.

Proposed dividend
The directors do not recommend the payment of a dividend.

Research and development

The group is involved in research and development in respect of the selective breeding of poultry.

Directors

The directors who held office during the year, and to the date of this report, were as follows:

CP Hill
J Schlaman

Employees

Disabled employees
Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation
The group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various matters affecting the performance of the group.

Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities amounted to $nil (*2015: $nil*).

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

CP Hill
Company Secretary

Stratford Hatchery
Atherstone on Stour
Stratford-Upon-Avon
Warwickshire
CV37 8BH

13 December 2016

Statement of directors' responsibilities in respect of the annual report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice) 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 judgements and 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 have a general responsibility for taking such steps as are reasonable.

Independent auditor's report to the members of Aviagen International Finance Limited

We have audited the financial statements of Aviagen International Finance Limited for the year ended 30 June 2016 set out on pages 7 to 37. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Report set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as of 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG

14 December 2016

Consolidated profit and loss account and other comprehensive income

for year ended 30 June 2016

	Note	2016 $000	2015 $000
Turnover:			
Group turnover	2	**582,044**	557,858
Cost of sales		**(388,210)**	(380,689)
Gross profit	3	**193,834**	177,169
Distribution costs		**(23,169)**	(24,588)
Administrative expenses		**(40,017)**	(35,689)
Other operating income		**6,245**	2,705
Other operating expenses		**(9,468)**	(7,516)
Group operating profit		**127,425**	112,081
Gain on sale of tangible fixed assets		**357**	1,669
Group's share of profit in joint ventures		**674**	637
Other interest receivable and similar income	6	**10,727**	8,112
Interest payable and similar charges	7	**(4,684)**	(7,970)
Profit on ordinary activities before taxation		**134,499**	114,529
Tax on profit on ordinary activities		**(29,398)**	(26,518)
Profit for the financial period		**105,101**	88,011
Other comprensive income			
Re-measurement of defined benefit asset/liability	8	**(3,760)**	(6,370)
Tax arising on loss in pension schemes		**676**	1,321
Net exchange differences		**(12,599)**	(53,741)
Fair value of forward currency contracts	22	**(2,624)**	803
Tax arising on movement ib forward currency contracts		**472**	(161)
Total other comprehensive loss		**(17,835)**	**(58,148)**
Total comprehensive income for the year		**87,266**	29,863
Profit or loss attributable to:			
Shareholders of the parent company		**81,358**	24,511
Minority interest		**5,908**	5,352
Profit for the financial period		**87,266**	29,863

All activities in 2016 are continuing.

The notes on pages 13 to 37 form part of the financial statements

Consolidated balance sheet
at 30 June 2016

	Note	**2016 $000**	**2016 $000**	2015 $000	2015 $000
Fixed assets					
Goodwill	*9*		**154,091**		155,761
Tangible assets	*10*		**205,454**		187,487
Investments	*11*	**7,207**		7,635	
Other investments	*11*	**117**		60	
			7,324		7,695
			366,869		350,943
Current assets					
Stocks	*12*	**99,644**		83,052	
Debtors (including $332,000 due after more than one year, 2015: $500,000)	*13*	**182,814**		182,060	
Cash at bank and in hand	*15*	**81,351**		44,227	
		363,809		309,339	
Creditors: amounts falling due within one year	*16*	**(231,409)**		(243,594)	
Net current assets			**132,400**		65,745
Total assets less current liabilities			**499,269**		416,688
Creditors: amounts falling due after more than one year	*17*		**(8,641)**		(7,519)
Provisions for liabilities					
Pension liability	*20*		**(16,883)**		(18,156)
Other provisions			**(4,578)**		(2,588)
Net assets			**469,167**		388,425
Capital and reserves					
Called up share capital	*21*		**24,667**		24,667
Capital contribution			**73,508**		73,508
Profit and loss account			**356,164**		281,330
Equity shareholders' funds			**454,339**		379,505
Minority interests			**14,828**		8,920
Total equity			**469,167**		388,425

The notes on pages 13 to 37 form part of the financial statements.

These financial statements were approved by the board of directors on 13 December 2016 and were signed on its behalf by:

Director

Company registered number: 04768827

Company balance sheet
at 30 June 2016

	Note	**2016**	**2016**	2015	2015
		$000	**$000**	$000	$000
Fixed assets					
Investments	*11*		**117,083**		117,083
Current assets					
Debtors	*13*	**22**		—	
Cash at bank and in hand		**52**		52	
		74		52	
Creditors: amounts falling due within one year	*16*	**(3)**		(3)	
Net current assets			**71**		49
Total assets less current liabilities			**117,154**		117,132
Net assets			**117,154**		117,132
Capital and reserves					
Called up share capital	*21*		**24,667**		24,667
Capital contribution			**38,585**		38,585
Profit and loss account			**53,902**		53,880
Equity shareholders' funds			**117,154**		117,132

The notes on pages 13 to 37 form part of the financial statements.

These financial statements were approved by the board of directors on 13 December 2016 and were signed on its behalf by:

Director

Company registered number: 04768827

Consolidated statement of changes in equity

	Called up share capital $000	Capital contri-bution $000	Profit & loss account $000	Total equity $000
Balance at 1 July 2014	24,667	73,508	286,325	384,500
Total comprehensive income for the period				
Profit or loss	—	—	82,659	82,659
Other comprehensive income	—	—	(58,148)	(58,148)
Total comprehensive income for the period	—	—	24,511	24,511
Transactions with owners, recorded directly in equity				
Dividends paid	—	—	(29,506)	(29,506)
Total contributions by and distributions to owners	—	—	(29,506)	(29,506)
Balance at 30 June 2015	24,667	73,508	281,330	379,505

	Called up share capital $000	Capital contri-bution $000	Profit & loss account $000	Total equity $000
Balance at 1 July 2015	24,667	73,508	281,330	379,505
Total comprehensive income for the period				
Profit or loss	—	—	99,193	99,193
Other comprehensive income	—	—	(17,835)	(17,835)
Total comprehensive income for the period	—	—	81,358	81,358
Transactions with owners, recorded directly in equity				
Dividends paid	—	—	(6,524)	(6,524)
Total contributions by and distributions to owners	—	—	(6,524)	(6,524)
Balance at 30 June 2016	24,667	73,508	356,164	454,339

Company statement of changes in equity

	Called up share capital $000	Capital contri-bution $000	Profit & loss account $000	Total equity $000
Balance at 1 July 2014	24,667	38,585	53,858	117,110
Total comprehensive income for the period				
Profit or loss	—	—	17,833	17,833
Total comprehensive income for the period	—	—	17,833	17,833
Transactions with owners, recorded directly in equity				
Dividends paid	—	—	(17,811)	(17,811)
Total contributions by and distributions to owners	—	—	(17,811)	(17,811)
Balance at 30 June 2015	24,667	38,585	53,880	117,132

	Called up share capital $000	Capital contri-bution $000	Profit & loss account $000	Total equity $000
Balance at 1 July 2015	24,667	38,585	53,880	117,132
Total comprehensive income for the period				
Profit or loss	—	—	22	22
Total comprehensive income for the period	—	—	22	22
Transactions with owners, recorded directly in equity				
Dividends paid	—	—	—	—
Total contributions by and distributions to owners	—	—	—	—
Balance at 30 June 2016	24,667	38,585	53,902	117,154

Consolidated cash flow statement
for year ended 30 June 2016

	2016	2015
	$000	$000
Cash flows from operating activities		
Group profit for the year	**105,101**	88,011
Adjustments for:		
Depreciation, amortisation and impairment	**28,045**	26,361
Finance cost	**4,523**	4,421
Investment income	**(6,294)**	(8,111)
Reclassificaion adjustments from hedging reserves to profit and loss	**(734)**	766
Share of profit and loss from joint ventures	**(180)**	(408)
Gain on sale of tangible fixed assets	**(357)**	(1,669)
Taxation	**29,398**	26,518
	54,401	47,878
(Increase)/decrease in trade and other debtors	**(5,941)**	3,934
(Increase)/decrease in stocks	**(9,244)**	11,033
(Decrease) in trade and other creditors	**(8,557)**	(8,474)
Decrease in provisions and employee benefits	**(84)**	(3,747)
	(23,826)	2,746
Net exchange (gain)/loss	**(2,153)**	3,337
Dividends paid	**(6,524)**	(29,506)
Interest paid	**(961)**	(324)
Tax paid	**(31,862)**	(24,187)
Net cash from operating activities	**94,176**	87,955
Cash from investing activities		
Proceeds from sale of tangible assets	**589**	2,600
Interest received	**3,485**	4,688
Cash proceeds from investments	**1,240**	437
Dividends received from joint venture	**1,070**	—
Acquisition of investments	**(1,410)**	(580)
Acquisition of tangible fixed assets	**(50,573)**	(47,492)
Acquisition of a subsidiary	**(15,222)**	—
Cash aquired on acquisition of a subsidiary	**2,154**	—
Net cash from investing activities	**(58,667)**	(40,347)
Cash from financing activities		
Capital elements of finance lease payments	**(79)**	(42)
Proceeds from new loan	—	42,500
Movement in related party balances	**2,952**	(87,723)
Net cash from financing activities	**2,873**	(45,265)
Net increase/(decrease) in cash	**38,382**	2,343
Cash at beginning of year	**44,227**	47,191
Effect of exchange rate fluctuations on cash held	**(1,258)**	(5,307)
Cash at end of year	**81,351**	44,227

Notes
(forming part of the financial statements)

1 Accounting policies

Aviagen International Finance Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is United States Dollars. All amounts in the financial statements have been rounded to the nearest $1,000.

In the transition to FRS 102 from old UK GAAP, the Group has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Group is provided in note 27.

In the transition to FRS 102 from old UK GAAP, the Company has made no measurement and recognition adjustments.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Business combinations – business combinations that took place prior to transition date have not been restated.
- Fair value or revaluation as deemed cost – the previous GAAP valuation of goodwill at the transition date has been used as the deemed cost for goodwill.
- Separate financial instruments – carrying amount of the Company's cost of investment in subsidiaries is its deemed cost at transition date.
- Lease arrangements – in order to determine whether an arrangement contains a lease, the Group and Company has analysed facts and circumstances existing at transition date rather than commencement date of the arrangement.

The parent company is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included; and
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Group and Company has not retrospectively changed its accounting under old UK GAAP for derecognition of financial assets and liabilities before the date of transition, accounting estimates or discontinued operations.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

Notes *(continued)*

1 Accounting policies (continued)

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except as otherwise stated in the financial statements.

1.2 Going concern

At the time of approving the financial statements, the directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future for the following reasons:

The Group meets its long term and day to day working capital requirements through a revolving credit facility, which at 30 June 2016 totalled $43m. This facility falls due for repayment on 30 June 2017 and as such is disclosed within creditors falling due within one year.

At the date of signing these accounts, the directors are at an advanced stage in renegotiating the group bank facilities. The negotiations will be completed prior to the due date on the loans and will increase the available facilities and extend the repayment date for at least an additional 36 months. The directors have prepared cash flow projections which demonstrate that the group can operate within the current, and expected new facilities.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 June each year. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

1.4 Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.5 Other financial instruments

Financial instruments not considered to be Basic Financial Instruments (other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and

Notes *(continued)*

1 Accounting policies (continued)

1.5 Other financial instruments (continued)

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income ("OCI"). Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss, the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value or the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition, a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Leasehold land and buildings — over the period of the lease
- Buildings — 10 - 50 years

Notes *(continued)*

1 **Accounting policies** (continued)

1.7 Business combinations

- Plant and equipment 3 – 10 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits. Construction in progress is not depreciated.

Business combinations are accounted for using the purchase method at the acquisition date, which is the date on which control is transferred to the entity.

At the acquisition date, the group recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

When the excess is negative, this is recognised and separately disclosed on the face of the balance sheet as negative goodwill.

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

1.8 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of intangible assets acquired in a business combination are capitalised separately from goodwill if the fair value can be measured reliably at the acquisition date.

Amortisation

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 20 years.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of Assets when there is an indication that goodwill or an intangible asset may be impaired.

1.9 Stocks

Stocks are stated at the lower of cost or estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition. For livestock, cost is taken as farm costs during the rearing period, which include an appropriate proportion of attributable overheads and is amortised over the laying period.

Notes *(continued)*

1 **Accounting policies** (continued)

1.10 Employee benefits

Defined contribution plans and other long term-employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The entity's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The entity determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the entity's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The entity recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

1.11 Turnover

Turnover represents amounts invoiced, net of discounts, in relation to provision of goods to third parties. Revenue from recognised sales and services is when risks and rewards of ownership have been transferred to the customer and when the outcome of the transaction can be measured reliably. Discounts, rebates and credits granted after sales are deducted from sales.

1.12 Expenses

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in such case, the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

Notes *(continued)*

1 Accounting policies (continued)

1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Turnover

An analysis of group turnover is as follows:

	2016 **$000**	2015 $000
UK	**42,460**	47,404
Rest of Europe	**354,616**	338,398
Rest of world	**184,968**	172,056
	582,044	557,858

No segmental analysis of turnover and profit before tax is provided as the directors believe the provision of such information would be seriously prejudicial of the group interests..

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2016 **$000**	2015 $000
Depreciation of tangible fixed assets	**18,644**	18,205
Amortisation of goodwill	**9,401**	8,156
Gain on disposal of tangible fixed assets	**357**	1,669
Hire of other assets	**10,175**	11,437
Hire of plant and machinery	**3,255**	3,474
Rental of land and buildings under operating leases	**4,938**	5,181
Research and development expenditure	**29,050**	24,260

Notes *(continued)*

3 Expenses and auditor's remuneration *(continued)*

Auditor's remuneration:

	2016	2015
	$000	$000
Audit of these financial statements	**86**	86
Disclosures below based on amounts receivable in respect of other services to the company and its subsidiaries		
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**351**	349
Taxation compliance services	**330**	186
Other tax advisory services	**100**	—

4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2016	2015
	Number	Number
Production and distribution	**1,947**	1,872
Administration	**343**	316
Other	**288**	301
	2,578	2,489

The aggregate payroll costs of these persons were as follows:

	2016	2015
	$000	$000
Wages and salaries	**78,427**	80,215
Social security costs	**9,180**	8,683
Contributions to defined contribution plans	**3,998**	2,857
Expenses related to defined benefit plan	**592**	549
Other benefits	**4,958**	5,526
	97,155	97,830

5 Directors' remuneration

The directors were remunerated by a company outside of the Aviagen International Finance Limited Group. This remuneration included qualifying services in respect to their position as director of this group.

	2016	2015
	$000	$000
Directors' emoluments on qualifying services to the group	**659**	280

No remuneration was paid to the directors in respect of services to the company (2015: nil).

Notes *(continued)*

6 Other interest receivable and similar income

	2016	2015
	$000	$000
Group		
Bank interest receivable	**435**	399
Group interest receivable	**2,957**	2,551
Receivable from parent undertaking	**2,119**	1,737
Net interest income on defined benefit pension plan	**2,970**	3,424
Net exchange gain	**2,153**	—
	10,634	8,111
Joint ventures		
- Interest income	**93**	1
	10,727	8,112

7 Interest payable and similar charges

	2016	2015
	$000	$000
Group		
Other interest payable	**744**	166
Payable to parent and fellow subsidiary undertakings	—	65
Finance charges on finance leases	**217**	217
Net exchange losses	—	3,337
Net interest expense on defined benefit liabilities	**3,562**	3,973
	4,523	7,758
Joint ventures		
- Bank interest payable	—	18
- Exchange losses	**161**	194
	4,684	7,970

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2016	2015
	$000	$000
Current tax		
Current tax on income for the period	**9,910**	10,947
Adjustment in respect of previous periods	**3,334**	(21)
Foreign tax		
Current tax on income for the year	**22,446**	18,166
Adjustment in respect of previous period	**(5,765)**	(2,384)
Total current tax charge	**29,925**	26,708
Deferred tax		
Origination/reversal of timing differences	**(1,460)**	(1,940)
Adjustment in respect of previous periods	**473**	925
Change in tax rate	**35**	809
Share of joint ventures' tax	**425**	16
Tax on profit on ordinary activities	**29,398**	26,518

Notes *(continued)*

8 Taxation *(continued)*

	2016			**2015**		
	$000	**$000**	**$000**	$000	$000	$000
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in profit and loss account	**30,350**	**(952)**	**29,398**	26,724	(206)	26,518
Recognised in other comprehensive income	**(519)**	**(752)**	**(1,271)**	—	(1,161)	(1,161)
Total tax	**29,831**	**(1,704)**	**28,127**	26,724	(1,367)	25,357

Reconciliation of effective tax rate

	2016	2015
	$000	$000
Profit for the year	**105,101**	88,011
Total tax expense	**29,398**	26,518
Profit excluding taxation	**134,499**	114,529
Tax using the UK corporate tax rate of 20% (2015:20.75%)	**26,900**	23,765
Expenses not deductible for tax purposes	**316**	230
Deemed distribution income	**—**	684
Higher tax rates on overseas earnings	**3,779**	1,810
Research and development tax credits	**(1,109)**	(212)
Depreciation on non-qualifying assets	**398**	491
Losses not recognised	**705**	1,431
Tax losses utilised	**(349)**	(189)
Foreign tax credits	**(86)**	—
Adjustment in respect of prior years	**(1,958)**	(1,480)
Rate difference on deferred tax	**35**	3
Other	**767**	(15)
Total tax expense included in profit and loss	**29,398**	26,518

Factors affecting the future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly. The deferred tax liability at the balance sheet date has been calculated based on these rates. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Notes *(continued)*

9 Goodwill

Group	**2016 $000**	2015 $000
Cost		
Balance at beginning of year	**163,917**	163,917
Additions (note 14)	**7,731**	—
Balance at end of year	**171,648**	163,917
Amortisation and impairment		
Balance at beginning of year	**8,156**	—
Amortisation and impairment	**9,401**	8,156
Balance at end of year	**17,557**	8,156
Balance at 30 June 2016	**154,091**	155,761

The amortisation charges are recognised in the administrative expense line item in the profit and loss account.

The company had no intangible fixed assets at 30 June 2016 and 30 June 2015.

10 Tangible fixed assets

	Land and buildings $000	**Plant and machinery $000**	**Vehicles $000**	**Total $000**
Group				
Cost				
At 1 July 2015	155,216	116,959	10,050	282,225
Additions	20,425	28,305	1,843	50,573
Acquisition	1,647	3,158	1,422	6,227
Reclassification	15,837	(15,853)	16	—
Disposals	(56)	(983)	(797)	(1,836)
Foreign currency exchange differences	(12,811)	(8,705)	(783)	(22,299)
At 30 June 2016	**180,258**	**122,881**	**11,751**	**314,890**
Depreciation				
At 1 July 2015	40,363	49,971	4,404	94,738
Charge for the year	6,755	10,085	1,804	18,644
Acquisition	1,139	2,744	1,222	5,105
Disposals	(33)	(820)	(751)	(1,604)
Foreign currency exchange differences	(4,218)	(2,873)	(356)	(7,447)
At 30 June 2016	**44,006**	**59,107**	**6,323**	**109,436**
Net book value				
At 30 June 2016	**136,252**	**63,774**	**5,428**	**205,454**
At 30 June 2015	114,853	66,988	5,646	187,487

Notes *(continued)*

10 Tangible fixed assets (continued)

Land and Buildings

Included in the total net book value of land and building and plant and machinery is $5,047,000 (2015: $4,669,000) and $155,000 (2015: $557,000), respectively in respect of assets held under finance leases. Depreciation for the year on these assets was $346,000 (2015: $520,000). The reclassifications to land and buildings relate to construction in progress costs accumulated, which have been placed in service in the current year.

The net book amount of land and buildings includes $162,926,000 (2015: $138,098,000) in respect of freehold land on which no depreciation is charged.

11 Fixed asset investments

	Interests in joint ventures $000	Other investments other than loans $000	Total $000
Group			
Shares			
At 1 July 2015	8,074	60	8,134
Additions	1,352	58	1,410
Foreign currency exchange differences	(1,120)	(1)	(1,121)
At 30 June 2016	**8,306**	**117**	**8,423**
Share of post acquisition reserves			
At 1 July 2015	(439)		(439)
Retained profits less losses for the year	180		180
Dividends	(1,070)		(1,070)
Foreign currency exchange differences	230		230
At 30 June 2016	**(1,099)**		**(1,099)**
Net book value			
At 30 June 2016	**7,207**	**117**	**7,324**
At 30 June 2015	7,635	60	7,695

	Shares in subsidiary undertakings $000
Company	
Cost and net book value	
At 1 July 2015 and 30 June 2016	**117,083**

Notes *(continued)*

11 Fixed asset investments (continued)

The principal undertakings in which the Company's interest at the year-end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held Group	Company
Subsidiary undertakings				
Aviagen International Finance One Limited	UK	Holding company	—	100%
Aviagen International Finance Two Limited*	UK	Holding company	**100%**	—
Aviagen International Finance Four Limited*	UK	Holding company	**100%**	—
Aviagen International Holdings Limited*	UK	Holding company	**100%**	—
EW UK Holdings 2 Limited*	UK	Holding company	**100%**	—
Aviagen International Finance Five Limited*	UK	Holding company	**100%**	—
Aviagen European Holdings Limited*	UK	Holding company	**100%**	—
Aviagen Turkeys Holdings Limited*	UK	Holding company	**100%**	—
Aviagen Limited*	UK	Poultry breeding	**100%**	—
Aviagen UK Limited*	UK	Poultry breeding	**100%**	—
Aviagen EPI NV*	Belgium	Poultry breeding	**100%**	—
Aviagen Kft*	Hungary	Poultry breeding	**100%**	—
Aviagen Turkeys Limited**	UK	Poultry breeding	**100%**	—
Aviagen Turkeys France s.a.r.l.*	France	Poultry breeding	**100%**	—
Aviagen America Latina Ltda*	Brazil	Poultry breeding	**100%**	—
Aviagen Australia Pty Ltd*	Australia	Poultry breeding	**100%**	—
Aviagen New Zealand Ltd*	New Zealand	Poultry breeding	**100%**	—
Aviagen India Poultry Breeding Company Pvt, Ltd*	India	Poultry breeding	**100%**	—
Aviagen Italia Srl*	Italy	Poultry breeding	**100%**	—
Aviagen GmbH*	Germany	Poultry breeding	**100%**	—
Aviagen South Africa (Proprietary) Limited*	South Africa	Poultry breeding	**100%**	—
Aviagen SAU*	Spain	Poultry breeding	**100%**	—
Aviagen France SAS*	France	Poultry breeding	**100%**	—
SA Le Sayec*	France	Poultry breeding	**100%**	—
Aviagen SweChick AB*	Sweden	Poultry breeding	**100%**	—
Aviagen LLC**	Russia	Poultry breeding	**100%**	—
Aviagen ApS*	Denmark	Poultry breeding	**100%**	—
Aviagen EPI BV*	The Netherlands	Poultry breeding	**100%**	—
Aviagen EPI GmbH*	Germany	Poultry breeding	**100%**	—
Aviagen EPI Polska Zoo*	Poland	Poultry breeding	**100%**	—
Aviagen Anadolu Ana Damizlik Tavukculuk Sanayi Veticaret Anonim Sirketi*	Turkey	Poultry breeding	**100%**	—
Ross Haymana ana Damizlik Tavukculuk Sanayi ve Ticaret A.S.*	Turkey	Poultry breeding	**80%**	—
Hockenhull Turkeys Ltd*	UK	Poultry breeding	**100%**	—

Notes *(continued)*

11 Fixed asset investments (continued)

	Country of incorporation	Principal activity	Class and percentage of shares held Group	Company
Subsidiary undertakings				
Dormant				
Dorana Fünfundfünfzigste Verwaltungs GmbH*	Germany	Poultry breeding	**100%**	—
Lohmann Indian River Beteiligungs GmbH*	Germany	Poultry breeding	**100%**	—
Lohmann Indian River GmbH & Co KG**	Germany	Poultry breeding	**100%**	—
Aviagen Pension Trustees Limited*	UK	Pension trustee	**100%**	—
Joint ventures				
Ross Ankara Damizlik Tavukculuk Sanayi Veticaret Anonim Sirketi*	Turkey	Poultry breeding	**49%**	—
Central India Poultry Breeders Pvt Ltd*	India	Poultry breeding	**50%**	—
Aviagen Properties LLC*	Russia	Poultry breeding	**49%**	—

* held indirectly by a subsidiary undertaking
** held indirectly by various subsidiary undertakings

12 Stocks

	2016 $000	2015 $000
Livestock	**63,431**	49,828
Work in progress	**29,232**	26,150
Consumables	**6,981**	7,074
	99,644	83,052

13 Debtors

	Group 2016 $000	2015 $000	**Company 2016 $000**	2015 $000
Due within one year:				
Trade debtors	**88,972**	87,061	—	—
Amounts owed by related parties	**70,695**	78,312	**22**	—
Other debtors	**11,153**	6,587	—	—
Other debtors and prepayments	**3,649**	1,870	—	—
Fair value of forward foreign currency contracts	—	1,240		
Deferred tax	**8,013**	6,490	—	—
Due after one year:				
Other debtors	**332**	500	—	—
	182,814	182,060	**22**	—

Notes *(continued)*

14 Acquisitions

On 19 November 2015, Aviagen Turkeys Holdings Limited acquired 100% of share capital in Le Sayec SA. The transfer of assets took place on 31 December 2015. The purchase consideration of $15.2 million was funded from the company's cash reserves. The business contributed revenue of $13,245,000 and net profit of $764,000 to net profit for the year.

Acquisitions are accounted for under the acquisition method as described in note 1.

Effect of acquisition

The acquisition had the following effect on the company's assets and liabilities:

In line with accounting policies and note 9 of these financial statements, the group will amortise the goodwill arising on acquisition over 20 years.

	Recognised values on acquisition $000
Acquiree's net assets at the acquisition date:	
Tangible fixed assets	1,075
Investments	46
Stocks	7,348
Trade and other debtors	2,430
Cash	2,154
Trade and other creditors	(4,330)
Provision for tax	(395)
Other non-current liabilities	(837)
Net identifiable assets and liabilities	7,491
Total cost of business combination:	
Consideration paid:	
Cash price paid	15,222
Total consideration	15,222
Goodwill on acquisition	7,731

15 Cash and cash equivalents

	2016 $000	2015 $000
Cash at bank and in hand	**81,351**	44,227
Cash and cash equivalents per cash flow statements	**81,351**	44,227

Notes *(continued)*

16 Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Bank loans secured (see note 18)	**42,500**	42,500	—	—
Finance leases (see note 18)	**26**	19	—	—
Trade creditors	**26,402**	38,344	—	—
Fair value of forward foreign currency contracts	**1,328**	—	—	—
Amounts owed to parent undertakings	**76,495**	85,603	—	—
Amounts owed to fellow subsidiary undertakings	**12,318**	9,889	—	—
Corporation tax	**10,885**	13,379	—	—
Other taxation and social security	**7,411**	5,053	—	—
Payments received in advance	**1,535**	1,871	—	—
Other creditors	**21,962**	18,754	**3**	3
Accruals and deferred income	**30,547**	28,182	—	—
	231,409	243,594	**3**	3

17 Creditors: amounts falling after more than one year

	Group		Company	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Finance leases (see note 18)	**1,631**	1,717	—	—
Other creditors	**6,591**	5,399	—	—
Accruals and deferred income	**419**	403	—	—
	8,641	7,519	—	—

18 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	Group	
	2016	2015
	$000	$000
Interest-bearing loans and borrowings falling due in one year or less		
Bank loans	**42,500**	42,500
Finance lease liabilities	**26**	19
	42,526	42,519
Interest-bearing loans and borrowings falling due in more than one year		
Finance lease liabilities	**1,631**	1,717
Total interest-bearing loans and borrowings	**44,157**	44,236

The bank loans bear interest at between 1.15% and 1.25% per annum above LIBOR. Certain of the companies within the Group have issued a guarantee for the purposes of securing bank loans provided to the Company and certain of its subsidiaries under three separate loan agreements. The guarantees of companies incorporated outside the United States are limited guarantees, in that they do not guarantee loans made available to a borrower incorporated within the United States. Furthermore, a charge over shares of one subsidiary of the Company over its investments has been granted as additional security for the obligations under the three loan agreements.

Notes *(continued)*

18 Interest-bearing loans and borrowings *(continued)*

Bank loans are payable as follows:

	2016	2015
	$000	$000
In less than one year	**42,500**	—
Between one and two years	**—**	42,500
	42,500	42,500

Obligations under finance leases are repayable as follows:

	2016	2015
	$000	$000
In less than one year	**245**	249
In the second to fifth year	**1,050**	1,058
Over five years	**2,270**	2,635
	3,565	3,942
Less future finance charges	**(1,908)**	(2,206)
	1,657	1,736

19 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2016**	2015	**2016**	2015	**2016**	2015
	$000	$000	**$000**	$000	**$000**	$000
Accelerated capital allowances	**—**	—	**4,161**	5,653	**4,161**	5,653
Employee benefits	**(3,039)**	(3,631)	**—**	—	**(3,039)**	(3,631)
Losses	**(65)**	(843)			**(65)**	(843)
Other timing differences	**(9,070)**	(6,744)	**—**	—	**(9,070)**	(6,744)
Net tax (assets)/liabilities	**(12,174)**	(11,218)	**4,161**	5,653	**(8,013)**	(5,565)

20 Employee benefits

Defined contribution plans

Group

The Group operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was $3,998,000 *(2015: $3,956,000).*

Defined benefit plans

The Group operates two defined benefit schemes in the United Kingdom providing benefits based on final pensionable pay. The most recent full actuarial valuation was on 30th June 2014 and has been updated for accounting purposes to 30th June 2016 by a qualified actuary, using the assumptions listed below. Both schemes are closed to future pensions accrual.

The plans are subject to the statutory funding objective and must therefore aim to have sufficient and appropriate assets to cover the plan's liabilities on the technical provisions basis which is agreed between the company and the trustees of the plans. As at the date of the most recently completed actuarial valuation (30th June 2014), the statutory funding objective was not met and therefore, the shortfall revealed between the Plan's assets and its liabilities must be repaired through the payment of deficiency contributions. The trustee and the Company have agreed a recovery plan such that the Company will pay contributions to the plans of £3,843,000 from 1 July 2016 to 1 October 2019.

An amount of nil (2015 – nil) was due in respect of unpaid contributions to the scheme at the balance sheet date.

The information disclosed below is in respect of the whole of the plan for which the Company is the sponsoring employer.

	2016	2015
	$000	$000
Defined benefit asset	**74,947**	84,743
Total defined benefit liability	**(91,830)**	(102,899)
Net liability for defined benefit obligations	**(16,883)**	(18,156)

A breakdown of the plan assets has been set out below as of 30 June 2016:

Asset Group	**2016**	2015
	$000	$000
Equities	**44,778**	52,770
Bonds	**15,952**	11,061
Gilts	**9,329**	15,165
Cash	**324**	619
Property	**4,564**	5,026
Insured pensions	**—**	102
Total assets	**74,947**	84,743

Notes *(continued)*

20 Employee benefits *(continued)*

Movements in net defined benefit liability/asset

Group	obligation 2016 $000	2015 $000	plan assets 2016 $000	2015 $000	(liability)/asset 2016 $000	2015 $000
Balance at beginning of year	**(102,899)**	(101,245)	**84,743**	85,874	**(18,156)**	(15,371)
Included in profit and loss						
Interest (cost)/income	**(3,562)**	(3,970)	**2,970**	3,421	**(592)**	(549)
	(106,461)	(105,215)	**87,713**	89,295	**(18,748)**	(15,920)
Included in OCI						
Remeasurements (loss)/gain:						
Acturial loss/(gain) arising from						
Change in demographic assumptions	**(3,296)**	(4,394)	—	—	**(3,296)**	(4,394)
Change in financial assumptions	**(3,722)**	(4,767)	—	—	**(3,722)**	(4,767)
Experience adjustment	**573**	79	—	—	**573**	79
Return on plan assets excluding interest income	—	—	**2,681**	2,712	**2,681**	2,712
	(112,906)	(114,297)	**90,394**	92,007	**(22,512)**	(22,290)
Other						
Contributions paid by the employer	—	—	**2,752**	2,859	**2,752**	2,859
Benefits Paid	**5,081**	3,031	**(5,081)**	(3,031)	—	—
Exchange Differences	**15,995**	8,367	**(13,118)**	(7,092)	**2,877**	1,275
	21,076	11,398	**(15,447)**	(7,264)	**5,629**	4,134
Balance at end of the year	**(91,830)**	(102,899)	**74,947**	84,743	**(16,883)**	(18,156)

The following additional information is to be added for the defined benefit plan disclosure:

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2016 %	2015 %
Discount rate	**3.31%**	2.75%
Inflation	**2.88%**	2.90%
Expected rate of increase of pensions in payment	**2.11%**	1.90%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 88.3 years (male), 90.8 years (female).
- Future retiree upon reaching 65: 90 years (male), 92.3 years (female).

Notes *(continued)*

21 Capital and reserves

Share capital

	Ordinary shares 2016
On issue at 1 July 2015 and 30 June 2016	15,170,306

	2016 $000	2015 $000
Allotted, called up and fully paid		
Ordinary shares of $1 each	24,667	24,667

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

22 Financial instruments

22 (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2016 $000	2015 $000
Liabilities measured at amortised cost	44,157	44,236

22(b) Valuation of Cash Flow Hedge

Below is a valuation breakdown of the derivative at the reporting date:

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models.

	Within 1 month $000	2-3 months $000	3-6 months $000	6-9 months $000	9-12 months $000	Total $000
2016						
Inflows	**883**	**1,768**	**2,658**	**2,665**	**2,671**	**10,645**
Outflows	**(993)**	**(1,989)**	**(2,990)**	**(2,997)**	**(3,004)**	**(11,973)**
	(110)	**(221)**	**(332)**	**(332)**	**(333)**	**(1,328)**
2015						
Inflows	1,099	2,199	3,302	3,308	3,312	13,220
Outflows	(995)	(1,991)	(2,992)	(2,998)	(3,004)	(11,980)
	104	208	310	310	308	1,240

Nature of Financial Instrument

The financial instrument is a forward currency contract from Euro to GBP contracted for a term of 12 months, settling a portion at the end of each month. At the balance sheet date, all gains/losses will be recognised in the Statement of Other Comprehensive Income as unrealised gains/losses until the point at which the gain or loss becomes realised at the end of the contract, whereby it is then taken to the profit and loss account.

Notes *(continued)*

22 Financial instruments (continued)

22(c) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	Fair value 2016 $000	Fair value 2015 $000
Hedge derivative (liability)/asset	**(1,328)**	1,240

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2016 $000	2015 $000
Less than one year	**3,689**	5,345
Between one and five years	**10,711**	11,044
More than five years	**13,147**	16,096
	27,547	32,485

During the year $4,938,000 (2015: $5,181,000) was recognised as an expense in the profit and loss account in respect of operating leases.

24 Commitments

Capital commitments

There are no capital commitments at the end of the year (2015: $nil).

25 Related parties

Group

Identity of related parties with which the Group has transacted

The group made sales and received goods to the following company and partnerships, in which EW Group GmbH have a material interest:

Transactions with key management personnel

Total compensation of key management personnel in the year amounted to $659 (*2015: $280*).

Notes *(continued)*

25 Related parties *(continued)*

Other related party transactions

	Sales to		Purchases from	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Aviagen Turkeys Inc.	**763**	69	**2,045**	—
Aviagen Inc.	**1,483**	683	**9,306**	5,875
Aviagen North America	—	—	**2,571**	836
SFG SAChsische Farmbetriebe GmbH	**2,074**	2,099	**7,886**	8,314
SFG SAChsische Farmbetriebe GmbH Zwei	**3,288**	2,021	**3,628**	3,485
Iberica Technologia Avicola	**15**	—	**699**	(156)
Laboratorio de Diagnostics	—	—	**188**	(101)
Hy-Line Italia srl	**212**	166	—	—
EW Group	**3,209**	—	—	(2,340)
EW Nutrition Australia	—	—	—	1
EW Nutrition GmbH	**2,138**	—	**3**	—
Hy-Line India	—	64	—	—
Lohmann Tierzucht GmbH	**4,132**	17	**3,629**	3,425
Vaxxinova GmbH	—	—	**672**	718
LSL Rhein-Main GmbH & Co. KG	**36**	—	—	—
	17,350	5,119	**30,627**	20,057

	Receivables outstanding		Creditors outstanding	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Aviagen Inc.	**246**	2,752	**5,757**	1,317
Aviagen Turkeys Inc.	**134**	128	**933**	2,964
Aviagen North America	**6**	—	**3,796**	2,633
Aviagen Group Inc.	**8**	—	**708**	1,288
CWT Farms	—	—	—	11
Aviagen Group Holdings Inc	—	—	—	635
EW Malta Trading	—	—	**69,595**	81,893
SFG SAChsische Farmbetriebe GmbH	—	—	**136**	107
SFG SAChsische Farmbetriebe GmbH Zwei	**1**	—	**186**	256
Iberica Technologia Avicola	**6**	—	**139**	—
Laboratorio de Diagnostics	**6**	—	**36**	—
Hy-Line Italia srl	—	47	—	—
EW Group	**942**	25	—	4,920
EW Nutrition Australia	**1**	—	—	—
Hy-Line Brasil	—	1	—	—
Hy-Line India	—	—	—	200
Hy-Line UK International	—	—	**235**	—
Hy-Line Layers Private	**287**	—	—	—
Lohmann Tierzucht GmbH	—	—	**47**	380
Vaxxinova GmbH	—	—	**131**	251
	1,637	2,953	**81,699**	96,855

Other related parties comprise wholly owned Group companies. Transactions with related parties were carried out at arms-length agreed terms, conditions and prices. The Group and company have taken advantage of the exemption within FRS 102 Section 33 paragraph 33.1A from the requirement to disclose transactions with other wholly owned companies in the same group.

There were no related party transactions at the Company level for the years ended 30 June 2015 and 2016.

26 Accounting estimates and judgements

Key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying value 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 where the revision affects both current and future periods.

Provisions

Provisions are made for specific customer claims relating to product quality or service levels. Additional provisions are made for diseases that may potentially impact flocks and the ability to export from certain regions of the group. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of cash flows and discount rates used to establish net present value of the obligations, if any, require management's judgement.

Defined benefit pension scheme

The Group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligations depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation into the balance sheet.

Debtors

Debtor recoverability is considered throughout the year and appropriate provisions set aside in the financial statements when required.

Goodwill amortisation

The directors have reviewed the economic useful life of goodwill to ensure that they are appropriate in determining the annual amortisation charge. Future fluctuations in relevant market conditions would be taken into account when reviewing the continued applicability of this useful life.

Critical accounting judgements in applying the Group's accounting policies

The Group believes that the major judgement applied is the use of the going concern principle which supports the valuation of assets included in the balance sheet.

27 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the Group's and Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2016 and the comparative information presented in these financial statements for the year ended 30 June 2015.

Group

In preparing its FRS 102 balance sheet, the Group adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Notes *(continued)*

27 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Reconciliation of equity

			1 July 2014			30 June 2015	
			Effect of transation			Effect of transation	
Group	*Note*	UK GAAP $000	to FRS102 $000	FRS102 $000	UK GAAP $000	to FRS102 $000	FRS102 $000
Fixed assets							
Tangible fixed assets		196,033	—	196,033	187,487	—	187,487
Investments in joint ventures							
Share of gross assets		9,758	—	9,758	12,301	—	12,301
Share of gross liabilities		(2,236)	—	(2,236)	(4,666)	—	(4,666)
Goodwill	a	163,372	—	163,372	163,917	(8,156)	155,761
Other investments		793	—	793	60	—	60
		367,720	—	367,720	359,099	(8,156)	350,943
Current assets							
Stocks		94,085	—	94,085	83,052	—	83,052
Debtors	b,c	186,238	3,425	189,663	177,736	4,324	182,060
Cash at bank and in hand		47,191	—	47,191	44,227	—	44,227
		327,514	3,425	330,939	305,015	4,324	309,339
Creditors: amounts due within one year		(284,628)	—	(284,628)	(243,594)	—	(243,594)
Net current assets		42,886	3,425	46,311	61,421	4,324	65,745
Creditors: amounts falling due after more than one year		(8,386)	—	(8,386)	(7,519)	—	(7,519)
Provisions for liabilities							
Other provisions		(2,209)	—	(2,209)	(2,588)	—	(2,588)
Pension liability		(12,293)	(3,075)	(15,368)	(14,525)	(3,631)	(18,156)
Net assets		387,718	350	388,068	395,888	(7,463)	388,425
Capital and reserves							
Called up share capital		24,667	—	24,667	24,667	—	24,667
Capital contribution		73,508	—	73,508	73,508	—	73,508
Other comprenhensive income		—	—	—	—	—	—
Profit and loss account	b	285,975	350	286,325	288,793	(7,463)	281,330
		384,150	350	384,500	386,968	(7,463)	379,505
Minority interests		3,568	—	3,568	8,920	—	8,920
Shareholders' equity		387,718	350	388,068	395,888	(7,463)	388,425

Notes *(continued)*

27 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Reconciliation of profit for comparative

	Note	UK GAAP $000	2015 Effect of transation to FRS102 $000	FRS102 $000
Turnover				
Group and share of joint ventures		563,790	—	563,790
Less: share of joint ventures		(5,932)	—	(5,932)
		557,858	—	557,858
Cost of sales		(380,689)		(380,689)
Gross Profit		177,169	—	177,169
Distribution costs		(24,588)	—	(24,588)
Administrative expenses	a	(27,533)	(8,156)	(35,689)
Other operating income		2,705	—	2,705
Other operating expense		(7,516)	—	(7,516)
Group operating profit		120,237	(8,156)	112,081
Share of operating profit in joint venture		637	—	637
Total operating profit		120,874	(8,156)	112,718
Profit on sale of tangible fixed assets		1,669		1,669
Interest receivable and similar income	d	9,551	(1,439)	8,112
Interest payable and similar charges		(7,970)		(7,970)
Profit on ordinary activities before taxation		124,124	(9,595)	114,529
Tax on profit on ordinary activities		(26,518)	—	(26,518)
Profit on ordinary activities after taxation		97,606	(9,595)	88,011
Income attributable to minority interest		(5,352)	—	(5,352)
Profit for the financial period		92,254	(9,595)	82,659
Other comprehensive income				
Re-measurement of defined benefit asset/liability	d	(7,809)	1,439	(6,370)
Deferred tax arising on loss in the pension schemes	d	1,620	(299)	1,321
Net exchange differences		(53,741)		(53,741)
Fair value of forward currency contracts	b	—	803	803
Deferred tax arising on forward contracts	b	—	(161)	(161)
Total comprehensive income for the year		32,324	(7,813)	24,511

Notes *(continued)*

27 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Notes to reconciliation on adoption of FRS 102

(a) Amortisation of goodwill

Under FRS 10, applicable under old UK GAAP, the Group did not amortise goodwill as it was deemed to have an indefinite useful economic life. Under FRS 102, goodwill has a finite life of a maximum of 10 years. The goodwill value as at 30 June 2014 is considered to be the deemed cost for the year ended 30 June 2015, and the company has amortised the amounts over 20 years.

(b) Hedge accounting

Under old UK GAAP, the Group accounted for unsettled derivatives off-balance sheet and recognised the settlement of the derivatives as a period gain or loss on the profit and loss statement. Under FRS 102, the company recognises the fair value of the derivatives under hedge accounting.

(c) Pension obligations

Under FRS 102, where a net deferred tax asset arises, this is shown within debtors. The Group may offset deferred tax assets and liabilities where there is legally enforceable right to do so. A transitional adjustment has been made to increase both the net defined benefit obligation and related deferred tax asset.

(d) Pension obligations

Under FRS 17, applicable under old UK GAAP, return on assets is recognised in profit or loss based on the long-term expected rate of return on plan assets less plan administration costs. Under FRS 102, net interest is calculated by applying the discount rate assumption to the net defined benefit obligation at the beginning of the period. The transitional adjustment had no effect on the net pension liability.

Company

In preparing its FRS 102 balance sheet, the Company has not adjusted amounts reported previously in the financial statements prepared in accordance with its old basis of accounting (UK GAAP). Therefore, no reconciliation from FRS 102 is required, given there have no adjustments to the figures reported in 2015.

28 Immediate, ultimate parent company and related undertakings

The immediate parent company is Aviagen Group Holding Inc. Aviagen Group Holding Inc. is incorporated in the United States. The company's ultimate parent undertaking is EW Group GmbH registered in Germany. This company's accounts are not available to the public. The related undertakings are disclosed in note 11 of these financial statements.