Aviagen International Finance Limited

Annual report and consolidated financial statements

Registered number 04768827

30 June 2018

Contents

Directors and advisers

Directors	CP Hill W Dye
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 2018.

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 2018. Operating profit after exceptional costs, increased from $166,897,000 in the previous year to $225,910,000 due to generally good product performance, good business conditions throughout the group and acquisitions. Profit before tax increased to $227,153,000 from $172,767,000. Turnover at $762,155,000 was up $138,802,000 (22.3%) 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 defined benefit pension plans as detailed in note 22. The funding of the UK pensions at 30 June 2018 was 64% in equities and 36% 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.

	Year ended 30 June 2018	Year ended 30 June 2017	Measure
Financial			
Return on capital	**23.94%**	20.48%	Profit after tax/total assets less current liabilities
Current ratio	**2.2:1**	3.1:1	Current assets: current liabilities
Stock turnover	**6.4**	6.2	Turnover/stock
Creditor days	**35**	27	Trade creditors/cost of sales x 365
Sales per employee ($000)	**212**	214	Turnover/average number of employees

By order of the board

Wendy W Dye

Wendy Dye
Company Director

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

02 November 2018

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2018.

Proposed dividend
Dividends of $158,655,000 *(2017: $4,869,000)* were paid during the year.

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
W Dye

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 (*2017: $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

Wendy W Dye

Wendy Dye
Company Director

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

02 November 2018

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

The directors are responsible for preparing the Strategic Report, the Directors' 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 group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Aviagen International Finance Limited for the year ended 30 June 2018 which comprise the Consolidated Profit and Loss Account and Other Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Independent auditor's report to the members of Aviagen International Finance Limited *(continued)*

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Date: 6.11.18

Saltire Court
20 Castle Terrace
Edinburgh
EH11 2EG

Consolidated profit and loss account and other comprehensive income

for year ended 30 June 2018

	Note	**2018 $000**	2017 $000
Turnover:			
Group turnover	*2*	**762,155**	623,353
Cost of sales		**(433,095)**	(396,254)
Gross profit	*3*	**329,060**	227,099
Distribution costs		**(28,871)**	(22,505)
Administrative expenses - other		**(50,879)**	(41,571)
Administrative expenses - exceptional	*6*	**(19,350)**	—
Other operating income		**7,685**	6,670
Other operating expenses		**(11,735)**	(2,796)
Operating profit	*3*	**225,910**	166,897
Gain/(Loss) on sale of tangible fixed assets		**438**	(228)
Group's share of profit/(loss) in joint ventures		**(40)**	(460)
Other interest receivable and similar income	*7*	**4,932**	10,065
Interest payable and similar charges	*8*	**(4,087)**	(3,507)
Profit on ordinary activities before taxation		**227,153**	172,767
Tax on profit on ordinary activities		**(62,205)**	(44,206)
Profit for the financial period		**164,948**	128,561
Other comprensive income			
Re-measurement of defined benefit asset/(liability)	*22*	**5,782**	220
Tax arising on loss in pension schemes		**(1,099)**	(20)
Net translation exchange differences		**(11,792)**	5,644
Movement in fair value of forward currency contracts		—	1,267
Tax arising on movement in forward currency contracts		—	(228)
Total other comprehensive (loss)/income		**(7,109)**	6,883
Total comprehensive income for the year		**157,839**	135,444
Profit or loss attributable to:			
Shareholders of the parent company		**152,523**	128,525
Non-controlling interest	*26*	**5,316**	6,919
Profit for the financial period		**157,839**	135,444

All activities in 2018 are continuing.

The notes on pages 16 to 41 form part of the financial statements

Consolidated balance sheet
at 30 June 2018

	Note	2018 $000	2018 $000	2017 $000	2017 $000
Fixed assets					
Goodwill	10		201,479		145,508
Intangible Assets			686		—
Tangible assets	12		297,223		231,411
Investments in joint ventures	13	5,198		4,727	
Other investments	13	138		139	
			5,336		4,866
			504,724		381,785
Current assets					
Stocks	14	119,776		100,261	
Debtors (including $739,000 due after more than one year, 2017: $288,000)	15	136,706		115,586	
Cash at bank and in hand	17	78,872		145,429	
		335,354		361,276	
Creditors: amounts falling due within one year	18	(151,187)		(115,416)	
Net current assets			184,167		245,860
Total assets less current liabilities			688,891		627,645
Creditors: amounts falling due after more than one year	19		(51,080)		(8,700)
Provisions for liabilities					
Pension liability	22		(6,463)		(14,189)
Other provisions	23		(32,422)		(5,014)
Net assets			598,926		599,742
Capital and reserves					
Called up share capital	24		24,667		24,667
Capital contribution			73,508		73,508
Profit and loss account			473,688		479,820
Equity shareholders' funds			571,863		577,995
Non-controlling interest	26		27,063		21,747
Total equity			598,926		599,742

The notes on pages 16 to 41 form part of the financial statements.

These financial statements were approved by the board of directors on 02 November 2018 and were signed on its behalf by:

Wendy Dye

Wendy Dye
Company Director

Company registered number: 04768827

Company balance sheet
at 30 June 2018

	Note	**2018 $000**	**2018 $000**	2017 $000	2017 $000
Fixed assets					
Investments	*13*		**117,083**		117,083
Current assets					
Debtors	*15*	**17**		10	
Cash at bank and in hand		**50**		59	
		67		69	
Creditors: amounts falling due within one year	*18*	**(3)**		(3)	
Net current assets			**64**		66
Total assets less current liabilities			**117,147**		117,149
Net assets			**117,147**		117,149
Capital and reserves					
Called up share capital	*24*		**24,667**		24,667
Capital contribution			**38,585**		38,585
Profit and loss account			**53,895**		53,897
Equity shareholders' funds			**117,147**		117,149

The notes on pages 16 to 41 form part of the financial statements.

These financial statements were approved by the board of directors on 02 November 2018 and were signed on its behalf by:

Wendy Dye

Wendy Dye
Company 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 2016	24,667	73,508	356,164	454,339
Total comprehensive income for the period				
Profit or loss	—	—	128,561	128,561
Profit or loss attributible to non-controlling interest	—	—	(6,919)	(6,919)
Other comprehensive income	—	—	6,883	6,883
Total comprehensive income for the period	—	—	128,525	128,525
Transactions with owners, recorded directly in equity				
Dividends paid (note 30)	—	—	(4,869)	(4,869)
Total contributions by and distributions to owners	—	—	(4,869)	(4,869)
Balance at 30 June 2017	24,667	73,508	479,820	577,995

	Called up share capital $000	Capital contri-bution $000	Profit & loss account $000	Total equity $000
Balance at 1 July 2017	24,667	73,508	479,820	577,995
Total comprehensive income for the period				
Profit or loss for the financial period	—	—	164,948	164,948
Profit or loss attributible to non-controlling interest	—	—	(5,316)	(5,316)
Other comprehensive income	—	—	(7,109)	(7,109)
Total comprehensive income for the period	—	—	152,523	152,523
Transactions with owners, recorded directly in equity				
Dividends paid (note 30)	—	—	(158,655)	(158,655)
Total contributions by and distributions to owners	—	—	(158,655)	(158,655)
Balance at 30 June 2018	24,667	73,508	473,688	571,863

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 2016	24,667	38,585	53,902	117,154
Total comprehensive income for the period				
Profit or loss	—	—	(5)	(5)
Total comprehensive income for the period	—	—	(5)	(5)
Balance at 30 June 2017	24,667	38,585	53,897	117,149

	Called up share capital $000	Capital contri-bution $000	Profit & loss account $000	Total equity $000
Balance at 1 July 2017	24,667	38,585	53,897	117,149
Total comprehensive income for the period				
Profit or loss	—	—	151,906	151,906
Total comprehensive income for the period	—	—	151,906	151,906
Dividends paid			(151,908)	(151,908)
Balance at 30 June 2018	24,667	38,585	53,895	117,147

Consolidated cash flow statement

for year ended 30 June 2018

	2018 $000	2017 $000
Cash flows from operating activities		
Group profit for the year	**164,948**	128,561
Adjustments for:		
Depreciation, amortisation and impairment	**33,198**	28,681
Finance cost	**3,862**	3,489
Investment income	**(3,170)**	(5,418)
Reclassificaion adjustments from hedging reserves to profit and loss	**—**	—
Share of profit and loss from joint ventures	**(429)**	595
Gain on sale of tangible fixed assets	**(438)**	228
Taxation	**62,205**	44,206
	95,228	71,781
Decrease/(increase) in trade and other debtors	**(2,637)**	3,542
Increase in stocks	**(9,981)**	(617)
Increase/(decrease) in trade and other creditors	**5,168**	2,994
Decrease in provisions and employee benefits	**23,631**	(774)
	16,181	5,145
Net exchange (gain)/loss	**(1,745)**	(2,822)
Dividends paid	**(158,655)**	(4,869)
Interest paid	**(1,079)**	(974)
Tax paid	**(53,656)**	(45,697)
Net cash from operating activities	**61,222**	151,125
Cash from investing activities		
Interest received	**1,213**	3,334
Cash proceeds from investments	**758**	—
Dividends/return of capital received from joint venture	**—**	2,317
Acquisition of investments	**(11)**	(320)
Acquisition of tangible fixed assets	**(82,250)**	(48,016)
Acquisition of a subsidiary	**(45,840)**	—
Cash aquired on acquisition of a subsidiary	**8,974**	—
Net cash from investing activities	**(117,156)**	(42,685)
Cash from financing activities		
Capital elements of finance lease payments	**(511)**	29
Repayment of borrowings	**—**	(42,500)
Movement in related party balances	**(6,301)**	(2,495)
Net cash from financing activities	**(6,812)**	(44,966)
Net increase/(decrease) in cash	**(62,746)**	63,474
Cash at beginning of year	**145,429**	81,351
Effect of exchange rate fluctuations on cash held	**(3,811)**	604
Cash at end of year	**78,872**	145,429

Notes *(continued)*

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"*) 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.

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.

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 29.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that financial instruments stated at fair value through the profit or loss are stated at their fair value.

1.2 Going concern

The directors have prepared cash flow forecast for the period to 30 June 2021 which demonstrate that the group will continue to be cash generative.

On the basis of their assessment of the Group's financial position and the expected cash flows, the directors have a reasonable expectation that this company and group will continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

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.

Notes *(continued)*

1 Accounting policies) (continued)

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
- 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.

Notes *(continued)*

1 Accounting policies (continued)

1.5 Other financial instruments (continued)

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
- 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.

1.7 Exceptional items

The Company has disclosed additional information in respect of exceptional items on the face of the profit and loss account in order to aid the understanding of the Company's financial performance. An item is treated as exceptional if it is considered that by virtue of its nature, scale or incidence it is of such significance that the separate disclosure is required for the financial statements to be properly understood.

1.8 Business combinations

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:

Notes *(continued)*

1 Accounting policies (continued)

1.8 Business combinations (continued)

- 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.

1.9 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.

1.10 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.

1.11 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

Notes *(continued)*

1 Accounting policies (continued)

1.11 Employee benefits

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.

1.12 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.

1.13 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)

1.14 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.

1.15 *Foreign currency*

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to other comprehensive income, which are recognised in other comprehensive income.

2 **Turnover**

An analysis of group turnover is as follows:

	2018	2017
	$000	$000
UK	**36,601**	36,631
Rest of Europe	**322,511**	273,189
Rest of world	**403,043**	313,533
	762,155	623,353

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.

Notes *(continued)*

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2018 $000	2017 $000
Depreciation of tangible fixed assets	**23,709**	20,098
Amortisation of goodwill	**10,383**	8,583
Gain/(loss) on disposal of tangible fixed assets	**438**	(228)
Hire of other assets	**10,209**	9,215
Hire of plant and machinery	**3,376**	3,365
Rental of land and buildings under operating leases	**3,854**	3,014
Research and development expenditure	**39,745**	25,433

Auditor's remuneration:

	2018 $000	2017 $000
Audit of these financial statements	**80**	80
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	**379**	251
Taxation compliance services	**346**	234
Other tax advisory services	**43**	54

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:

	2018	2017
Production and distribution	**2,658**	2,191
Administration	**442**	355
Other	**494**	368
	3,594	2,914

The aggregate payroll costs of these persons were as follows:

Notes *(continued)*

4 Staff numbers and costs *(continued)*

	2018	2017
	$000	$000
Wages and salaries	**85,762**	81,966
Social security costs	**11,394**	10,241
Contributions to defined contribution plans	**3,915**	3,182
Expenses related to defined benefit plan	**1,051**	865
Other benefits	**6,070**	5,518
	108,192	101,772

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.

	2018	2017
	$000	$000
Directors' emoluments on qualifying services to the group	**448**	299

No remuneration was paid to the directors in respect of services to the company (2017: nil).

6 Exceptional items

	2018	2017
	$000	$000
Group		
Restructuring expense	**19,350**	—
	19,350	—

Exceptional costs in 2018 relate to restructuring costs following the acquisition of a subsidiary in the year.

Notes *(continued)*

7 Other interest receivable and similar income

	2018	2017
	$000	$000
Group		
Bank interest receivable	**674**	713
Group interest receivable	**35**	2,514
Receivable from parent undertaking	**—**	1,807
Net interest income on defined benefit pension plan	**2,412**	2,084
Net exchange gain	**1,745**	2,822
	4,866	9,940
Joint ventures		
- Interest income	**66**	25
- Exchange gain	**—**	100
	4,932	10,065

8 Interest payable and similar charges

	2016	2017
	$000	$000
Group		
Other external interest payable	**298**	962
Group interest payable	**781**	—
Finance charges on finance leases	**—**	12
Net interest expense on defined benefit liabilities	**2,783**	2,515
	3,862	3,489
Joint ventures		
- Bank interest payable	**17**	18
- Exchange losses	**208**	—
	4,087	3,507

Notes *(continued)*

9 Taxation

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

	2018 $000	2017 $000
Current tax		
Current tax on income for the period	**13,656**	7,947
Adjustment in respect of previous periods	**3,053**	(887)
Foreign tax		
Current tax on income for the year	**45,360**	37,860
Adjustment in respect of previous period	**687**	7
Total current tax charge	**62,756**	44,927
Deferred tax		
Origination/reversal of timing differences	**2,065**	252
Adjustment in respect of previous periods	**(2,320)**	(1,131)
Change in tax rate	**(453)**	116
Share of joint ventures' tax	**157**	42
Tax on profit on ordinary activities	**62,205**	44,206

	2018			2017		
	$000 Current tax	**$000 Deferred tax**	**$000 Total tax**	$000 Current tax	$000 Deferred tax	$000 Total tax
Recognised in profit and loss account	**62,914**	**(709)**	**62,205**	44,969	(763)	44,206
Recognised in other comprehensive income	**—**	**1,098**	**1,098**	454	43	497
Total tax	**62,914**	**389**	**63,303**	45,423	(720)	44,703

Notes *(continued)*

9 Taxation *(continued)*

Reconciliation of effective tax rate

	2018 $000	2017 $000
Profit for the year	**164,948**	128,561
Total tax expense	**62,205**	44,206
Profit excluding taxation	**227,153**	172,767
Tax using the UK corporate tax rate of 19% (2017: 20%)	**43,159**	34,553
Expenses not deductible for tax purposes	**833**	542
Higher tax rates on overseas earnings	**11,187**	11,041
Research and development tax credits	**(276)**	(212)
Depreciation on non-qualifying assets	**422**	357
Losses not recognised	**6,878**	370
Tax losses utilised	**—**	(120)
Foreign tax credits	**(32)**	(80)
Adjustment in respect of prior years	**1,420**	(2,018)
Rate difference on deferred tax	**(453)**	116
Other	**(933)**	(343)
Total tax expense included in profit and loss	**62,205**	44,206

Factors affecting the future current and total tax charges

Reductions in the UK corporation tax rate from 20 to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. 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. The deferred tax liability at 30 June 2018 has been calculated based on these rates.

10 Goodwill

Group	2018 $000	2017 $000
Cost		
Balance at beginning of year	**171,648**	171,648
Additions	**66,354**	—
Reclassification	**(894)**	—
Balance at end of year	**237,108**	171,648
Amortisation and impairment		
Balance at beginning of year	**26,140**	17,557
Amortisation and impairment	**10,383**	8,583
Reclassification	**(894)**	—
Balance at end of year	**35,629**	26,140
Balance at 30 June	**201,479**	145,508

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

Notes *(continued)*

11 Intangible fixed assets

Property rights	**2018 $000**	2017 $000
Balance at beginning of year	—	—
Acquisitions	**1,023**	—
Additions	—	—
Amortisation	**(279)**	—
Foreign currency exchange differences	**(58)**	—
Balance at end of year	**686**	—

The property rights acquired in the current year have been recognised as a result of an acquisition as detailed in note 16. The cost of the property rights has been recognised at fair value at the date of acquisition consistent with the accounting policies.

In line with accounting policies, the group will amortise intangible assets on a straight line basis over their useful life. The acquisition price is net of amortisation.

12 Tangible fixed assets

	Land and buildings $000	**Plant and machinery $000**	**Vehicles $000**	**Construction in progress $000**	**Total $000**
Group					
Cost					
At 1 July 2017	191,110	140,026	13,299	13,122	357,557
Additions	18,136	17,213	2,439	44,462	82,250
Reclassification	11,343	(168)	31	(11,206)	—
Acquisitions	22,242	66,644	1,031	343	90,260
Disposals	(821)	(2,543)	(1,032)	(44)	(4,440)
Foreign currency exchange differences	(9,439)	(9,161)	(420)	(498)	(19,518)
At 30 June 2018	**232,571**	**212,011**	**15,348**	**46,179**	**506,109**
Depreciation					
At 1 July 2017	50,814	67,995	7,337	—	126,146
Charge for the year	8,619	13,330	1,760	—	23,709
Reclass	(71)	47	24	—	—
Acquisitions	16,659	54,923	928	—	72,510
Disposals	(681)	(2,037)	(910)	(44)	(3,672)
Foreign currency exchange differences	(3,442)	(6,060)	(305)	—	(9,807)
At 30 June 2018	**71,898**	**128,198**	**8,834**	**(44)**	**208,886**
Net book value					
At 30 June 2018	**160,673**	**83,813**	**6,514**	**46,223**	**297,223**
At 30 June 2017	140,296	72,031	5,962	13,122	231,411

Notes *(continued)*

12 Tangible fixed assets *(continued)*

Land and Buildings

Included in the total net book value of land and building and plant and machinery is $4,982,000 (2017: $5,195,000) and $8,000 (2017: $29,000), respectively in respect of assets held under finance leases. Depreciation for the year on these assets was $24,000 (2017: $94,000). 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 value of land and buildings includes $14,946,000 (2017: $14,399,000) in respect of freehold land on which no depreciation is charged.

13 Fixed asset investments

	Interests in joint ventures $000	Other investments other than loans $000	Total $000
Group			
Shares			
At 1 July 2017	6,116	139	6,255
Additions	—	11	11
Disposals	—	(7)	(7)
Foreign currency exchange differences	69	(5)	64
At 30 June 2018	**6,185**	**138**	**6,323**
Share of post acquisition reserves			
At 1 July 2017	(1,389)		(1,389)
Retained profits less losses for the year	429		429
Foreign currency exchange differences	(27)		(27)
At 30 June 2018	**(987)**		**(987)**
Net book value			
At 30 June 2018	**5,198**	**138**	**5,336**
At 30 June 2017	4,727	139	4,866

	Shares in subsidiary undertakings $000
Company	
Cost and net book value	
At 1 July 2017 and 30 June 2018	**117,083**

Notes *(continued)*

13 Fixed asset investments (continued)

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

Company Name / Address	Country of incorporation	Principal activity	Class and percentage of shares held Group	Company
Subsidiary undertakings				
Aviagen International Finance One Limited Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Holding company	**100%**	100%
Aviagen International Finance Two Limited* Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Holding company	**100%**	—
Aviagen International Finance Four Limited* Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Holding company	**100%**	—
Aviagen International Holdings Limited* Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Holding company	**100%**	—
EW UK Holdings 2 Limited* Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Holding company	**100%**	—
Aviagen International Finance Five Limited* Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Holding company	**100%**	—
Aviagen European Holdings Limited* Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Holding company	**100%**	—
Aviagen Turkeys Holdings Limited* Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Holding company	**100%**	—
Aviagen Limited* Stratford Hatchery, Atherstone on Stour, Stratford-Upon-Avon, Warwickshire, CV37 8BH	UK	Poultry breeding	**100%**	—
Aviagen UK Limited* 11 Lochend Road, Ratho Station Newbridge, Midlothian, EH28 8SZ	UK	Poultry breeding	**100%**	—
Aviagen EPI NV* Nazarethsesteenweg 83, Deinze, 9800, Belgium	Belgium	Poultry breeding	**100%**	—
Aviagen Kft* Gyor, Hunyadi, Jamos U. 14, 9024 Hungary	Hungary	Poultry breeding	**100%**	—
Aviagen Turkeys Limited** Chowley Five, Chowley Oak Business Park, Tattenhall, Cheshire, CH3 9GA	UK	Poultry breeding	**100%**	—
Aviagen Turkeys France s.a.r.l.* 16 Rue de la Morgan, Langueux, 22360 France	France	Poultry breeding	**100%**	—
Aviagen America Latina Ltda* Avenida 5, Rio Claro / Sao Paulo, Brazil. 13502760	Brazil	Poultry breeding	**100%**	—

Notes *(continued)*

13 Fixed asset investments (continued)

Company Name / Address	Country of incorporation	Principal activity	Class and percentage of shares held Group	Company
Aviagen Australia Pty Ltd* 184 Yambil Street, Griffith. New South Wales 2680, Australia	Australia	Poultry breeding	**100%**	—
Aviagen New Zealand Ltd* Fitxroy 4341, New Plymouth, New Zealand	New Zealand	Poultry breeding	**100%**	—
Aviagen India Poultry Breeding Company Pvt, Ltd* Elayamuthur P.O, Gandhinagar-642 154, Udumalpet Taluk, Tiruppur District, India	India	Poultry breeding	**100%**	—
Aviagen Italia Srl* Via Marconiu 15, 27043 Broni (PV), Italy	Italy	Poultry breeding	**100%**	—
Aviagen GmbH* Birkenstr. 1, 09627 Hilbersdorf, Germany	Germany	Poultry breeding	**100%**	—
Aviagen South Africa (Proprietary) Limited* Welverdread Farm, Meyeton-Heidelberg Road, Meyerton, 1930, South Africa	South Africa	Poultry breeding	**100%**	—
Aviagen SAU* Cl. Quintana, S/N, 08416-Riells del Fai, Barcelona, Spain	Spain	Poultry breeding	**100%**	—
Aviagen France SAS* 2 Rue de la Fontaine, Beaucouze, 49070, Angers, France	France	Poultry breeding	**100%**	—
SA Le Sayec* La Montagne du Salut, 56855 Caudan Cedex, France	France	Poultry breeding	**100%**	—
Aviagen SweChick AB* Stalgatan 3, S-265 38 Astorp, Sweden	Sweden	Poultry breeding	**100%**	—
Aviagen LLC** 20 Vesennaya Str., Kamenka Village, Yasnogorsk Region, Tula Region, 301036, Russia	Russia	Poultry breeding	**100%**	—
Aviagen ApS* Baekke Hatchery, Klostergade 13. DK-6622, Baekke, Denmark	Denmark	Poultry breeding	**100%**	—
Aviagen EPI BV* Wisentweg53, Lelystad, Netherlands, NL-8219 PL	The Netherlands	Poultry breeding	**100%**	—
Aviagen EPI GmbH* Hartingspecken 72, D-27637, Nordholz, Germany	Germany	Poultry breeding	**100%**	—
Aviagen EPI Polska Zoo* Zebowo 71, PL-87-126, Obrowo, Poland	Poland	Poultry breeding	**100%**	—
Aviagen Anadolu Ana Damizlik Tavukculuk Sanayi Veticaret Anonim Sirketi* 2861 Cad. Alimci Park Villalari No:3, 06810 Ceyyolu/Ankara, Turkey	Turkey	Poultry breeding	**100%**	—

Notes *(continued)*

13 Fixed asset investments (continued)

Company Name / Address	Country of incorporation	Principal activity	Class and percentage of shares held Group	Company
Ross Haymana ana Damizlik Tavukculuk Sanayi ve Ticaret A.S.* 2861 Cad. Alimci Park Villalari No:3, 06810 Ceyyolu/Ankara, Turkey	Turkey	Poultry breeding	**80%**	—
Hockenhull Turkeys Ltd* Chowley Five, Chowley Oak Business Park, Tattenhall, Cheshire, CH3 9GA	UK	Poultry breeding	**100%**	—
Hubbard France SAS* Mauguerand, 22800 Le foeil, France	France	Poultry breeding	**100%**	—
Hubbard do Brazil Aricultura LTDA* Avienido do Trabalhador, Aron 45, Setor Universitario CEP 73800-000, Luziania, Goias, Brazil	Brazil	Poultry breeding	**100%**	—
Hubbard Polska Sp. ZO.O* Pawlow Trzebnicki 71, 55-110 Prusice, Polland	Polland	Poultry breeding	**100%**	—
Avicompost Sarl* La Verrerie 22150 l' Hermitage, Lorge, France	France	Poultry breeding	**100%**	—
LLC Aviagen Turkeys Rus* Office 3, House 4, Tsentralnaya str., Nikolsk 442680, Penza region. Russia	Russia	Poultry breeding	**100%**	—
Aviagen Nordeste Brasil Comercio de Aves Lt(Est Carnauba, Poco Doce, Km 06, S/N, Sala 01 Zona Rural, Paracuru, CE, CEP 62680000, Brasil	Brazil	Poultry breeding	**100%**	—
Subsidiary undertakings				
Dormant				
Dorana Fünfundfünfzigste Verwaltungs GmbH* Am Seedeich 9-11, 27472 Cuxhaven, Germany	Germany	Poultry breeding	**100%**	—
Lohmann Indian River Beteiligungs GmbH* Am Seedeich 9-11, 27472 Cuxhaven, Germany	Germany	Poultry breeding	**100%**	—
Lohmann Indian River GmbH & Co KG** Am Seedeich 9-11, 27472 Cuxhaven, Germany	Germany	Poultry breeding	**100%**	—
Aviagen Pension Trustees Limited* 11 Lochend Road, Ratho Station Newbridge, Midlothian, EH28 8SZ	UK	Pension trustee	**100%**	—
Joint ventures				
Ross Ankara Damizlik Tavukculuk Sanayi Veticaret Anonim Sirketi* 2861., Cadde, No: 3/1, 06810 Cayyolu, Cankaya, Ankara, Turkey	Turkey	Poultry breeding	**49%**	—
Central India Poultry Breeders Pvt Ltd* 91, Sakure Nagar, Viman Nagar, Pune 411014	India	Poultry breeding	**50%**	—
Aviagen Properties LLC* 20 Vesennaya str., Kamenka village, Yasnogorsk region, Tula region, 301036, Russia	Russia	Poultry breeding	**49%**	—

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

Notes *(continued)*

14 Stocks

	2018	2017
	$000	$000
Livestock	**75,606**	62,323
Work in progress - eggs	**34,525**	30,960
Consumables	**9,645**	6,978
	119,776	100,261

15 Debtors

	Group		**Company**	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Due within one year:				
Trade debtors	**97,547**	89,348	—	—
Amounts owed by related parties	**14,257**	7,009	**17**	10
Other debtors	**14,501**	8,058	—	—
Other debtors and prepayments	**1,854**	2,114	—	—
Deferred tax	**7,808**	8,769	—	—
Due after one year:				
Other debtors	**739**	288	—	—
	136,706	115,586	**17**	10

16 Acquisitions

On February 15, 2018, the group, through Aviagen European Holdings Ltd, acquired 100% of the share capital of the non-US Hubbard group of companies comprised of Hubbard SAS, Hubbard do Brasil Avicultura Ltda, Hubbard Polska and Avicompost. The purchase consideration of $56.5 million which includes deferred consideration of $10.6m, was funded from a revolving credit facility draw of $45.9m. The acquired business contributed revenue of $23.2m and net loss of $19.8m 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:

Notes *(continued)*

16 Acquisitions *(continued)*

	Fair values on acquisition $000
Acquiree's net assets at the acquisition date:	
Tangible fixed assets	17,750
Intangible fixed assets	1,023
Stocks	9,981
Trade and other debtors	11,525
Cash	8,974
Trade and other creditors	(59,157)
Net identifiable assets and liabilities	(9,904)
Total cost of business combination:	
Consideration paid:	
Cash price paid	45,840
Promissory note	10,610
Total consideration	56,450
Goodwill on acquisition	66,354

In line with the accounting policies as noted in note 1, the group will amortise the goodwill arising on acquisition over 20 years.

17 Cash and cash equivalents

	2018 $000	2017 $000
Cash at bank and in hand	**78,872**	145,429
Cash and cash equivalents per cash flow statements	**78,872**	145,429

Notes *(continued)*

18 Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Finance leases (see note 20)	**27**	38	—	—
Trade creditors	**42,061**	29,697	—	—
Deferred consideration	**3,329**	—	—	—
Amounts owed to parent undertakings	**3,476**	3,677	—	—
Amounts owed to fellow subsidiary undertakings	**11,002**	11,599	—	—
Corporation tax	**18,876**	10,179	—	—
Other taxation and social security	**12,449**	6,131	—	—
Payments received in advance	**1,405**	1,272	—	—
Other creditors	**31,689**	24,113	**3**	3
Accruals and deferred income	**26,873**	28,710	—	—
	151,187	115,416	**3**	3

19 Creditors: amounts falling after more than one year

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Finance leases (see note 20)	**1,148**	1,648	—	—
Deferred consideration	**6,621**	—	—	—
Loans from subsidiary undertakings	**22,687**	—	—	—
Loans from parent undertakings	**11,083**	—	—	—
Other creditors	**8,203**	6,598	—	—
Accruals and deferred income	**1,338**	454	—	—
	51,080	8,700	—	—

20 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	
	2018	2017
	$000	$000
Interest-bearing loans and borrowings falling due in one year or less		
Finance lease liabilities	**27**	38
	27	38
Interest-bearing loans and borrowings falling due in more than one year		
Finance lease liabilities	**1,148**	1,648
Total interest-bearing loans and borrowings	**1,175**	1,686

Notes *(continued)*

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

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. There were no loans outstanding under these loan agreements as of 30 June 2018 and 30 June 2017.

Obligations under finance leases are repayable as follows:

	2018	2017
	$000	$000
In less than one year	**199**	260
In the second to fifth year	**850**	1,114
Over five years	**1,361**	2,056
	2,410	3,430
Less future finance charges	**(1,235)**	(1,744)
	1,175	1,686

21 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2018**	2017	**2018**	2017	**2018**	**2017**
	$000	$000	**$000**	$000	**$000**	$000
Accelerated capital allowances	—	—	**6,010**	4,546	**6,010**	4,546
Employee Benefits	**(1,099)**	(2,413)	—	—	**(1,099)**	(2,413)
Losses	**(165)**	(42)	—	—	**(165)**	(42)
Other timing differences	**(12,554)**	(10,860)	—	—	**(12,554)**	(10,860)
Net tax (assets)/liabilities	**(13,818)**	(13,315)	**6,010**	4,546	**(7,808)**	(8,769)

22 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 $3,915,000 *(2017: $3,182,000).*

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 2018 by a qualified actuary, using the assumptions listed below. Both schemes are closed to future pensions accrual.

Notes *(continued)*

22 Employee benefits *(continued)*

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 per annum from 1 July 2017 to 1 October 2019.

An amount of nil (2017 – 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.

	2018	2017
	$000	$000
Defined benefit asset	**90,691**	85,440
Total defined benefit liability	**(97,154)**	(99,629)
Net liability for defined benefit obligations	**(6,463)**	(14,189)

A breakdown of the plan assets has been set out below as of 30 June 2017:

Asset Group	**2018**	**2017**
	$000	**$000**
Equities	**58,033**	**54,204**
Bonds	**26,143**	**16,144**
Gilts	**—**	**9,755**
Cash	**942**	**412**
Property	**5,573**	**4,925**
Total assets	90,691	85,440

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

	2018	2017
	%	%
Discount rate	**2.82%**	2.77%
Inflation	**3.25%**	3.36%
Expected rate of increase of pensions in payment	**2.43%**	2.65%

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), 90.9 years (female).
- Future retiree upon reaching 65: 90.1 years (male), 92.4 years (female).

Notes *(continued)*

22 Employee benefits *(continued)*

Movements in net defined benefit liability/asset

Group	Defined benefit obligation 2018 $000	Defined benefit obligation 2017 $000	Fair value of plan assets 2018 $000	Fair value of plan assets 2017 $000	Net defined benefit (liability)/asset 2018 $000	Net defined benefit (liability)/asset 2017 $000
Balance at beginning of year	**(99,629)**	(91,830)	**85,440**	74,947	**(14,189)**	(16,883)
Included in profit and loss						
Interest (cost)/income	**(2,783)**	(2,515)	**2,412**	2,084	**(371)**	(431)
	(102,412)	(94,345)	**87,852**	77,031	**(14,560)**	(17,314)
Included in OCI						
Remeasurements (loss)/gain:						
Acturial loss/(gain) arising from						
Change in demographic assumptions	—	(5,892)	—	—	—	(5,892)
Change in financial assumptions	**2,431**	(3,675)	—	—	**2,431**	(3,675)
Experience adjustment	—	256	—	—	—	256
Return on plan assets excluding interest income	—	—	**3,352**	9,531	**3,352**	9,531
	(99,981)	(103,656)	**91,204**	86,562	**(8,777)**	(17,094)
Other						
Contributions paid by the employer	—	—	**2,678**	2,453	**2,678**	2,453
Benefits Paid	**4,294**	2,107	**(4,294)**	(2,107)	—	—
Exchange Differences	**(1,467)**	1,920	**1,103**	(1,468)	**(364)**	452
	2,827	4,027	**(513)**	(1,122)	**2,314**	2,905
Balance at end of the year	**(97,154)**	(99,629)	**90,691**	85,440	**(6,463)**	(14,189)

23 Other provisions

	Deferred Income $000	Restructuring $000	Customer Claims $000	Disease $000	Other $000	Total $000
Balance at 30 June 2017	86	2,101	1,545	912	371	5,015
Provisions made during the year	—	4,785	3,377	848	2,047	11,057
Provisions used during the year	262	—	(2,552)	(1,578)	(310)	(4,178)
Amounts arising due to acquisitions	—	20,597	—	—	105	20,702
Exchange	2	(240)	35	20	9	(174)
Balance at 30 June 2018	350	27,243	2,405	202	2,222	32,422

Notes *(continued)*

24 Capital and reserves

Share capital

	Ordinary shares 2018
On issue at 1 July 2017 and 30 June 2018	15,170,314

	2018 $000	2017 $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.

25 Financial instruments

Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2018 $000	2017 $000
Assets measured at amortised cost	97,547	89,348
Liabilities measured at amortised cost	43,236	31,383

26 Non-controlling interest

	Group 2018 $000	2017 $000
At Beginning of year	21,747	14,828
Retained profit for year	5,316	6,919
At end of year	27,063	21,747

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group 2018 $000	2017 $000
Less than one year	6,110	4,300
Between one and five years	15,847	10,896
More than five years	5,705	12,781
	27,662	27,977

Notes *(continued)*

27 Operating leases *(continued)*

During the year $7,741,000 (2017: $4,961,000) was recognised as an expense in the profit and loss account in respect of operating leases.

28 Dividends

The following dividends were recognized during the period:

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Aviagen Internal Finance Limited				
$10.01 (2017: $nil) per qualifying ordinary share	**151,908**	—	**151,908**	—
Aviagen Turkeys Limited				
£75.79 (2017: £58.01) per qualifying ordinary share	**6,748**	—	—	—
£nil (2017: £0.07) per A Preference share	—	4,870	—	—
	158,656	—	**151,908**	—

29 Commitments

Capital commitments

There are no capital commitments at the end of the year (2017: $nil).

30 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 $448,000 (*2017: $299,000*).

Notes *(continued)*

30 Related parties *(continued)*

	Sales to		Purchases from	
	2018	2017	2018	2017
	$000	$000	$000	$000
Aviagen Turkeys Inc.	1,423	605	587	1,833
Aviagen Inc.	10,296	2,636	8,624	6,926
Aviagen North America	980	122	—	440
Hubbard, LLC	833	—	1,081	—
SFG SAChsische Farmbetriebe GmbH	2,036	1,852	9,057	8,042
SFG SAChsische Farmbetriebe GmbH Zwei	2,084	1,881	3,637	3,402
Iberica Technologia Avicola	—	—	724	615
Laboratorio de Diagnostics	—	—	254	198
Hy-Line Italia srl	—	157	44	—
Hy-Line France	—	—	—	3
EW Group	—	3,270	14	2,133
EW Nutrition GmbH	—	—	3	—
Hy-Line India	1,102	12	10	—
Hy-Line KFT	419	—	—	—
Lohmann Tierzucht GmbH	20	1	4,183	2,697
Lohmann GB Ltd.	—	—	16	—
Biocheck BV	—	—	347	263
Biocheck UK Ltd	—	—	5	15
Vaxxinova GmbH	—	—	576	480
VALO BioMedia GmbH	—	—	108	—
Agromix Broderij en Opfokintegratie B.V.	28	—	—	—
	19,221	10,536	29,270	27,047

	Receivables outstanding		Creditors outstanding	
	2018	2017	2018	2017
	$000	$000	$000	$000
Aviagen Inc.	9,405	521	3,587	3,132
Aviagen Turkeys Inc.	2,435	1,676	4,455	4,092
Aviagen North America	153	10	—	3,165
SFG SAChsische Farmbetriebe GmbH	—	692	266	233
SFG SAChsische Farmbetriebe GmbH Zwei	—	—	153	184
Iberica Technologia Avicola	—	—	41	90
Laboratorio de Diagnostics	—	—	35	39
Hy-Line Italia srl	—	46	—	—
EW Group	1,001	—	2,236	266
EW Nutrition GmbH	4	—	2	1
EW Nutrition Australia	—	2	—	—
Hy-Line KFT	383	—	—	—
Hy-Line Layers Private	—	69	6	—
Lohmann Tierzucht GmbH	20	—	279	328
Lohmann GB Ltd.	5	—	—	—
Agri Advanced Technology	—	—	42	—
Aqua Gen AS	—	5		
Biocheck BV	—	—	23	3
Vaxxinova GmbH	—	—	5	58
	13,406	3,021	11,130	11,591

Notes *(continued)*

30 Related parties *(continued)*

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 2016 and 2017.

31 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.