

Improving world  
agricultural efficiency  
through biotechnology

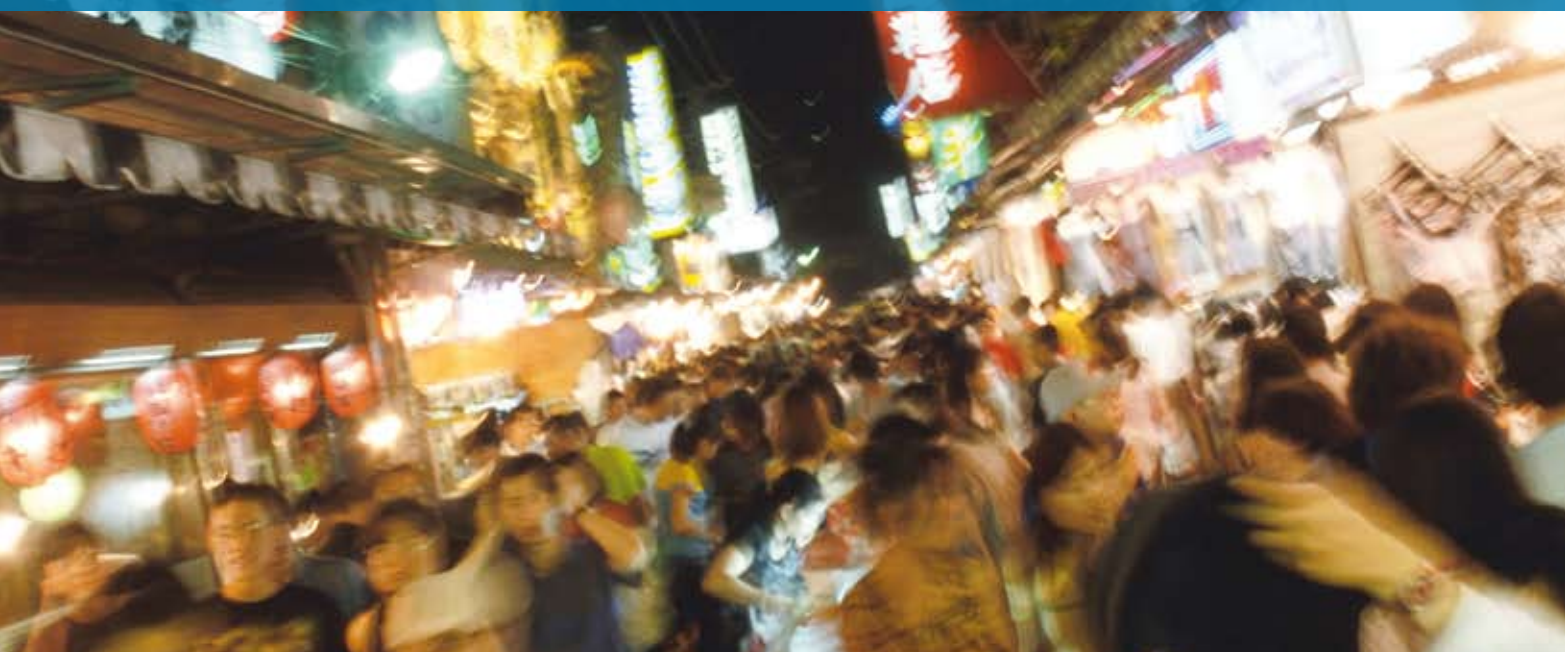
# What We Do

Genus is a world leader in creating advances in animal breeding through naturally applied biotechnology.

We play a key role in the world's agricultural economy by providing innovative solutions to our global farmer and food producer customers to meet the challenge of growing global demand for milk, pork and beef from an increasing world population when there are decreasing resources available for food production.

We currently operate in the bovine and porcine sectors helping farmers and food producers across the world to improve quality, achieve production efficiencies and increase output.

Our competitive edge is created from our ownership and control of proprietary lines of breeding animals, the biotechnology used to improve them and our global production and distribution network. Genus sales are made in 70 countries worldwide and we have operations in 30 countries.



## Company Overview

- > IFC Our Business
- > 01 Highlights
- > 02 Chairman's Statement

## Business Review

- > 04 Chief Executive's Review
- > 06 Our Business Model
- > 08 Our World Today
- > 10 Strategy Review
- > 18 Market Overview
- > 20 Review of Operations
- > 26 Key Performance Indicators
- > 28 Financial Review
- > 31 Principal Risks and Uncertainties
- > 32 Corporate Social Responsibility

## Corporate Governance

- > 34 Board of Directors
- > 36 Directors' Report
- > 40 Corporate Governance Statement
- > 45 Audit Committee Report
- > 48 Directors' Remuneration Report
- > 59 Directors' Responsibilities Statement

## Financial Statements

- > 60 Independent Auditors' Report – Group Financial Statements
- > 61 Group Income Statement
- > 62 Group Statement of Comprehensive Income
- > 63 Group Statement of Changes in Equity
- > 64 Group Balance Sheet

- > 65 Group Statement of Cash Flows
- > 66 Notes to the Group Financial Statements
- > 106 Independent Auditors' Report – Parent Company Financial Statements
- > 107 Parent Company Financial Statements – Balance Sheet
- > 108 Notes to the Parent Company Financial Statements
- > 117 Five Year Record – Consolidated Results
- > 119 Notice of Annual General Meeting



# Our Business

Genus is a world leader in applying quantitative genetics and biotechnology to animal breeding in the bovine and porcine sectors.

The Group operates sales and distribution on a regional basis across its four major regions with research and development managed centrally on a global basis to ensure maximum effectiveness.

## Our Strategy

Our strategy for long-term, sustainable growth is to research and develop superior natural animal genetics that we provide to farmers throughout the world, enhancing their productivity and generating a return for our shareholders. We do this through four strategic priorities:



### Target Research & Product Development

Target research and product development to ensure Genus' products remain ahead of competitors and to provide for a commercial breakthrough

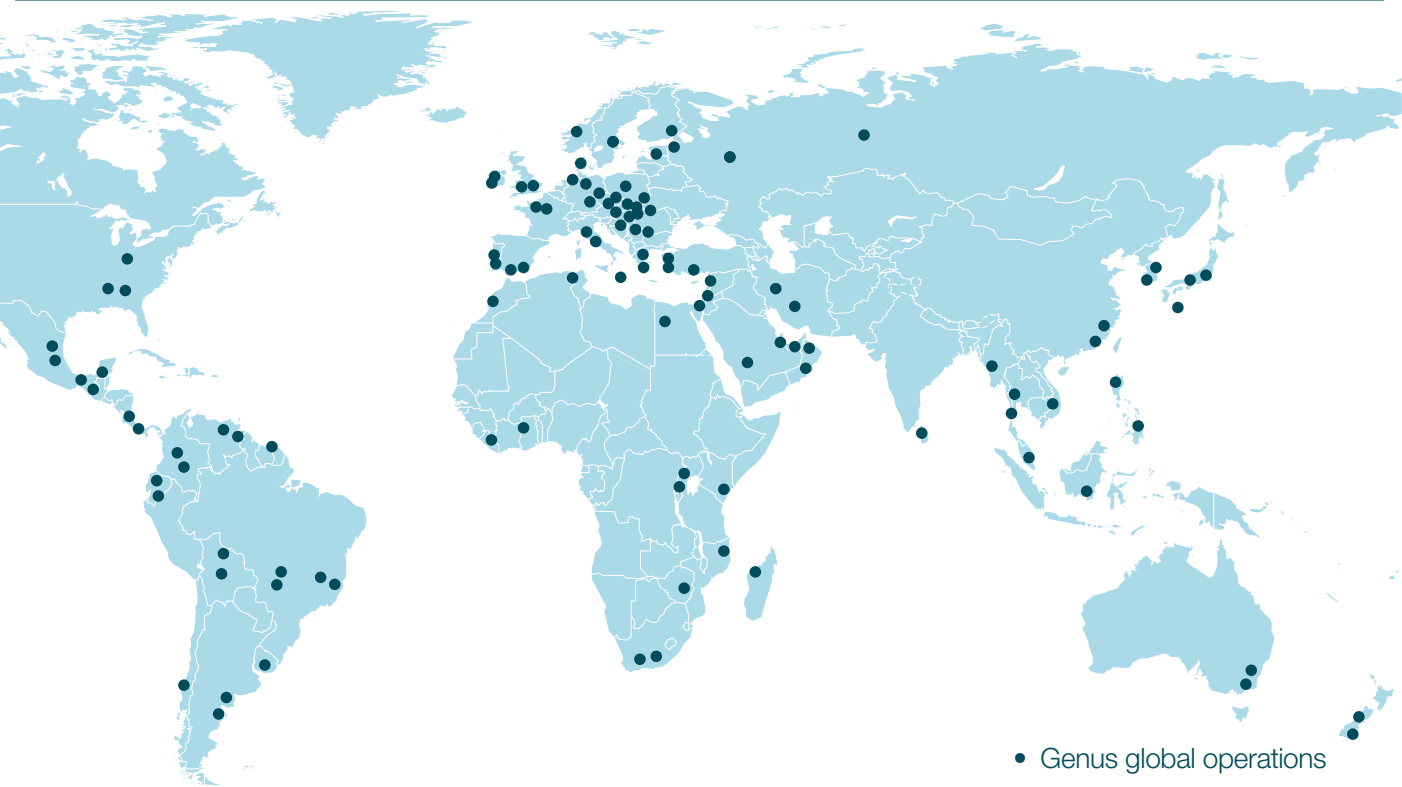
See page 10



### Enhance Global Product Development Facilities

Invest in enhancing global production facilities to be able to meet the projected increases in demand

See page 12



3

**Capture Growth in Developing Markets**

Local investment in developing markets to capture up to 50% of the new growth in these markets

See page 14

**Enhance Shareholder Return**

Go to **page 6** to see our business model

4

**Continue Growth in Developed Markets**

Continue growth in line with historical growth rates in the developed markets through improved product offering and customer services

See page 16

# Financial Highlights

## +19.0%

increase in adjusted profit before tax to £39.0m

## £17.0m

cash inflow (before swap settlement) reducing net debt to £67.9m

## +10%

increase in recommended dividend to 13.3 pence per share

- > Record results with strong growth in sales and adjusted profits as recovery in agricultural markets continued
- > Adjusted operating profit including joint ventures up 7% to £45.3m:
  - Bovine volumes up 11% and porcine volumes up 6%
  - North America and Latin America led recovery with double digit profit increases
  - Strategic investment in research and development increased by 8% to £25.3m
- > Adjusted profit before tax up 19% to £39.0m and earnings per share up 22% to 44.8 pence
- > Improved cash generation
  - £17.0m cash inflow before £7.0m swap settlement cost
  - Net debt reduced to £67.9m (2010: £80.0m)
- > Good strategic progress in developing markets:
  - Regional management strengthened in Far East and Latin America
  - Bovine stud acquired in Russia became operational in August 2011
  - Production and marketing of locally produced semen started in India with encouraging initial sales
- > Recommended dividend increase of 10% to 13.3 pence per share to be paid in November. Board expects to declare an interim dividend for the first time commencing in 2012
- > Statutory profit before tax in line with last year because of a smaller increase in the net IAS 41 valuation movement on biological assets, higher share-based payment expense and reduced exceptional gains

Adjusted Results Year ended 30 June	Actual Currency			Constant Currency**
	2011 £m	2010 £m	Movement %	Movement %
Revenue	309.9	285.3	9	9
Operating profit*	42.2	39.9	6	7
Operating profit inc JVs*	45.3	42.2	7	8
Profit before tax*	39.0	32.9	19	19
Basic earnings per share (p)*	44.8	36.7	22	23

Statutory Results Year ended 30 June	2011 £m	2010 £m	%
Revenue	309.9	285.3	9
Operating profit	44.8	47.0	(5)
Profit before tax	40.8	40.8	—
Earnings per share (p)	49.0	46.3	6
Dividend per share (p)	13.3	12.1	10

\* Adjusted operating profit, adjusted profit before tax and adjusted basic earnings per share are before net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, share-based payment expense and exceptional items. These are the measures used by the Board to monitor underlying performance.

\*\* Constant currency percentage movements are calculated by restating 2011 results at the exchange rates applied in 2010.



# Chairman's Statement

## Bob Lawson



"I am pleased to report strong business performance and sound underlying strategic progress."

I was very proud to become Chairman of Genus last November and, in this my first statement to you as shareholders, I am pleased to report strong business performance and sound underlying strategic progress.

### Results

Genus achieved good results for the year ended 30 June 2011. Revenue rose 9%, compared with only 2% growth last year, as customer demand for genetics began to recover post the agricultural recession. Adjusted pre-tax profits rose 19% to £39.0m and adjusted earnings per share were up 22% at 44.8p.

With the major capital investment programme, started two years ago, to increase product development capacity now complete, cash generation was also strong with net debt reducing by £12.1m to £67.9m.

### Strategy

The strength of the Group's strategy lies in the combination of the underlying fundamental growth inherent in the markets in which the Group operates, the strength of the Group's global sales and distribution network and perhaps most importantly of all, the success of its research and product development in ensuring the Group's products remain market leading.

Global population growth and increasing urbanisation are driving increased demand for food and protein in diets. The growth in demand for Genus' products that this creates is further enhanced by the need for farming to become more efficient. Improved animal genetics is a key component in meeting these demands.

Against this background, the success of Genus' research and product development programme is vital to ensuring that the Group maintains its leading position as the natural

provider of improved genetics. The Board's recognition of the importance of this is reflected in the emphasis placed on the workings of the Group's Science Committee and the regular reporting of progress to the Board. The Science Committee is chaired by Professor Barry Furr and oversees the allocation of research funds to projects based on their importance and likelihood of commercial success as well as monitoring progress in global research and product development activities. The results to date are impressive, with industry leading performance in both our porcine and bovine product ranges. To further enhance our competitive position, we plan to continue to increase our investment in research and product development in the current year.

Genus has an extensive global sales and distribution network through which to distribute its products. As reported by Richard, much attention is being placed on extending this network to take advantage of the opportunities available in fast growing emerging markets.

### Dividend

The Board is recommending an increase in the final dividend for the year ended 30 June 2011 of 10% to 13.3 pence per share. Subject to shareholder approval at the Company's Annual General Meeting to be held on 10 November 2011, this dividend will be paid on 25 November 2011 to shareholders on the register at the close of business on 11 November 2011.

As the Group has now completed its major investment programme to expand its product development and production facilities and has returned to being strongly cash generative, the Board has reviewed its dividend policy. It has concluded that it will introduce an interim dividend. As a result, the final dividend for the year just ended is being brought forward from January 2012 to November 2011,



Karim Bitar and Richard Wood

Company  
OverviewBusiness  
ReviewCorporate  
GovernanceFinancial  
Statements

and the Board expects to pay an interim dividend in April 2012 of approximately one third of the total dividend for the year.

### Directors and Employees

During the last year, a key task for me and my Board colleagues has been to manage the succession of our Chief Executive Richard Wood as he approached retirement.

I am pleased to welcome Karim Bitar to the Board. Karim joined the Board on 1 September 2011 and will become Chief Executive on Richard's retirement on 30 September 2011.

Karim, a biochemist by training, has an outstanding reputation for delivering international growth with market-leading pharmaceutical products. The Board believes that his extensive experience combined with his commitment and enthusiasm for innovation will provide further impetus to Genus' development.

Richard has led Genus as Chief Executive for over 14 years. During this period Genus has been transformed from a small UK operation into a truly global business with growth driven by its in-house research and development and worldwide distribution. On behalf of the Board and shareholders, I would like to thank Richard for the huge commitment and contribution that he has made to Genus and wish him a long and enjoyable retirement.

As you know, John Hawkins, my predecessor, stepped down at last year's AGM and I would like to record my thanks to John for an exemplary handover and for all his hard work for Genus during his ten years as a Director.

In my first year as Chairman, I have begun to visit our key operations and met many of our people.

My impressions are:

1. The Group operates in a global segment that has substantial potential. Demand for quality food efficiently produced to meet the growing population needs will underpin the Group's future growth and development.
2. Genus has excellent standards of animal husbandry. The animals are well housed and looked after by committed and knowledgeable people.
3. Significant expertise resides in the research activities of the Group. For us, our primary competitive advantage is market leading genetics and these genetics have to match the needs of individual countries as well as specific customers. I have been most impressed by the expertise that we have within the organisation and our commitment to provide superior products at attractive prices directly from the research activities.
4. We have a global footprint and an increasingly credible presence in the important emerging markets. These will be the significant profit drivers for the Group in the years ahead.
5. The lasting impression is of the professionalism and commitment of everyone in all spheres of activity that I have met. This team of people operating in 30 countries provides a service to customers which you as owners of Genus can justifiably be proud. On behalf of the Board, I would like to thank them all for their hard work and support in continuing to deliver best in class service to customers and another year of record profits.

I am confident that the Group's global footprint, investment in research and product development and industry leading product portfolio leaves Genus well placed to continue the progress made in the last year and to benefit from the long-term growth available in its global markets.

**Bob Lawson**  
**Chairman**

5 September 2011





# Chief Executive's Review

## Richard Wood



"In this my final year as Chief Executive, I am pleased to report record results with adjusted pre-tax profits up 19%."

	Actual Currency		Movement %	Constant Currency
	2011 £m	2010 £m		Movement %
Revenue	<b>309.9</b>	285.3	9	9
Adjusted operating profit inc JVs	<b>45.3</b>	42.2	7	8
Adjusted profit before tax	<b>39.0</b>	32.9	19	19
Adjusted earnings per share (p)	<b>44.8</b>	36.7	22	23

In this my final review of Genus' progress as Chief Executive Officer, I am pleased to be able to report that Genus achieved a strong performance in the year to 30 June 2011, delivering record results with revenue up 9% to £309.9m and adjusted profit before tax increasing by 19% to £39.0m.

The recovery in global agricultural markets that began to improve the genetics market in the first half of this year continued to progress. This led to improved demand for genetics from our customers, especially in Latin America and the USA. Genus achieved good volume growth in those markets but the Far East porcine market remained depressed until the final quarter and the European porcine market is yet to recover.

With the benefit of the improved trading and reduced capital expenditure, the cash inflow for the year was £10.0m and this reduced net debt to below £70m.

### Group Performance

Revenue for the year of £309.9m was up 9%. The increase was driven principally by growth in sales in both North America and Latin America. Growth was particularly noticeable in the porcine business where sales of breeding animals grew strongly.

Adjusted operating profit, including the contribution from joint ventures, increased by 7% to £45.3m. North America and Latin America both recorded double digit profit growth, due to the strength of the market recovery and, in Latin America, underlying market growth. The porcine operations performed particularly well delivering 8% volume growth. In Europe where the market was more fragile, bovine performed robustly. However the region's profits were held back by the depressed state of the European pig market which is also suffering from the increased cost and uncertainty associated with imminent environmental and welfare legislation. This resulted in lower demand for porcine breeding animals. The Far East profitability was at a similar level to last year. The Chinese pig market was depressed until the final quarter because of widespread outbreaks of disease but has recovered and is now strong. The region made good progress in bovine with volumes well up, particularly in China.

We increased investment in Research and Development by 8% to drive further progress in product development activities to meet projected future demand and to enhance genetic progress.

Finance costs were reduced by £3.0m to £6.3m. Pension interest and bank interest costs reduced, with the latter benefiting from a tighter control of working capital and improved cash generation from trading.

The increased adjusted operating profit and lower finance costs combined to produce a 19% increase in adjusted profit before tax to £39.0m. Exchange movements had a minimal effect in the year with profit before tax up 19% at constant currency.

As explained in the Financial Review on page 28, the statutory operating profit of £44.8m was 5% lower than last year (2010: £47.0m). This result is struck after non-recurring





Company  
OverviewBusiness  
ReviewCorporate  
GovernanceFinancial  
Statements

exceptional items and certain non-cash items, particularly the net IAS 41 valuation movement in biological assets. The nature and volatility of these items do not properly reflect the underlying performance of the business. It is for this reason that we report externally and use internally adjusted profit to measure performance. Statutory profit before tax was £40.8m (2010: £40.8m) after the benefit of reduced interest charges. Statutory earnings per share rose 6% to 49.0 pence per share (2010: 46.3 pence).

### Strategy

I am pleased to report that the programme to expand product development and increase production capacity by 30% was successfully completed in the first half of this financial year. This new capacity is helping to maintain and grow our product lead and is also providing the capacity necessary to meet rising demand both in our established markets and to open up developing markets, particularly, in the RIC countries, Russia, India and China.

A key plank of the Group's strategy is to capture growth in these fast growing developing markets. Our objective is that the Far East and Latin America regions should grow within five years to become 40% of earnings from their current 31%. Good progress has been made in the laying of foundations to achieve this growth.

We have strengthened the management teams in both the Far East and Latin America. New regional managers were appointed to an enlarged Far East region that now includes Russia and to oversee operations in the equally important Latin American market. We also recruited a new managing director for China in view of the strong growth envisaged for that market.

We have also progressed our plans to increase sales of domestically produced product in Russia, India and China.

A newly acquired stud in Russia has been stocked with bulls from the USA and became operational in August 2011. We commenced the sale of locally produced semen in India and in China, we have increased to 48 the number of Australian sourced progeny-tested bulls available to support growth in that fast developing market. We have also expanded our porcine operation in China, albeit at a slower pace than originally planned because of the temporarily depressed prospects there.

These steps have enabled us to achieve a 9% sales increase in the RIC countries and leave us well placed to benefit from further growth in these markets.

### Outlook

Despite the current economic uncertainties, by the end of Genus' financial year, most global agricultural markets were considerably more favourable than a year ago and we expect these market conditions to continue.

In July, US bovine sales were reduced by a heatwave in some states but this was offset by a much improved performance in our porcine business across the Far East. Overall trading has been in line with our expectations and we look forward confidently to another year of good growth.

I am delighted to be able to hand over such a healthy and prosperous business. Genus has an exceptional team of managers and staff, all dedicated and hardworking. I have enjoyed working with them over the last 14 years and would like to thank them for their courtesy, help and support in our joint endeavours. I feel sure they will continue to show the same resolve for success and commitment to my successor, Karim Bitar.

**Richard Wood**  
Chief Executive  
5 September 2011



# Our Business Model

Genus is a world leader in applying science to animal breeding. Through our extensive research and product development we create advances to animal breeding.

World demand for improved farming productivity

## Our Business

Genus is a world leader in applying science to animal breeding. Through our extensive research and product development we create advances in animal breeding. The non-genetically modified organism technology used is applicable across all livestock species but is only commercialised by Genus in the bovine and porcine farming sectors. This enables us to sell semen and breeding animals to our customers with superior genetics to those animals currently in production. Customers' animals produce offspring with greater production efficiency, milk and meat output and quality, and use these to supply the global dairy and meat chain.

Genus operates sales and distribution on a regional basis across its four major regions of North America, Latin America, Europe and the Far East (including Russia and Australia). Genus' worldwide sales are made in seventy countries under the trademarks 'Genus' or 'ABS' (dairy and beef cattle) and 'PIC' (pigs). Its bovine and porcine product sectors are broadly of similar size, with annual sales of £310m being split 50% bovine and 50% porcine. Research and development is managed centrally on a global basis to ensure maximum effectiveness.

## Revenue by species



50% Bovine  
50% Porcine

## Revenue by region



£118m North America (inc R&D)  
£46m Latin America  
£111m Europe  
£35m Far East

## Our Business Model

### World Demand for Improved Farming Productivity

Genus is a growth business well positioned to benefit from the increasing global demand for improved agricultural efficiency.

### World-leading Research & Product Development

The lifeblood of the business is its research and product development. Approximately £25m per annum is spent on research and product development to create improved genetics.

Our bovine product development programme is designed to create elite bulls whose characteristics meet the requirements of farming customers. We achieve this through an extensive bull development programme involving 400 animals each year entering our five year selection and testing programmes located across the world. Genome evaluation is increasingly being used to supplement traditional progeny testing and thereby to extend the Company's lead in the sector.

The primary objective of our porcine development programme is to improve the genetics in the Company's pure lines of animals. These are then used to create elite boars and gilts to multiply in order to supply agricultural quantities of superior pure-bred and cross-bred animals for sale to regional customers.

Pure line development involves 6,400 sows and boars and is undertaken in two nucleus herd facilities located in Canada and the USA. The programme is optimised using genomic evaluation techniques and the in-house extensive database of animal records created through cross-bred trials and information obtained from our customers.





World leading  
research &  
development

Global  
sales and  
distribution

Improved  
farming  
productivity  
  
Shareholder  
return

Alongside the development programme we operate a fundamental research programme designed to identify improvements in techniques and to provide the potential for a technological breakthrough.

### Global Sales and Distribution

Genus sells and distributes most of its products through thirty subsidiaries located in the four operating regions. In a number of other countries sales are made through agents.

The business model is different for bovine and porcine:

- > In bovine, the elite bulls graduating from product development enter one of our nine studs located throughout the world. Semen produced at these studs is frozen and distributed to the regional businesses for sale to customers. In some countries, we also provide related added value products, such as Powerstart silage enhancer, and technical services such as genetic mating and reproductive management services to assist farmers to maximise the benefits of the genetics we sell.
- > Distribution of porcine genetics is achieved through the sale of live breeding animals and in some cases through the sale of fresh semen. Porcine semen has a short life and can only be used on farms near our multiplication facilities.

The elite boars and gilts produced from the two nucleus farms are multiplied to produce agricultural quantities for supply to our customers.

Genus adds value by continuously increasing the quality of the genetics that it provides. Therefore, in order to capitalise on its intellectual property whilst minimising the Group's exposure to fluctuations in pig prices involved in

the extensive multiplication process, Genus subcontracts to third party multipliers the vast majority of its multiplication requirements. Contracts with multipliers entitle the Group to repurchase for onward sale those animals that are required to supply its customers. In addition, a number of its larger customers undertake their own multiplication.

Sales of breeding animals to customers are increasingly being made under royalty contracts rather than by a direct and outright sale. Under royalty contracts, breeding animals are sold to customers at or near their cost of production and customers commit to pay a royalty fee on the number of offspring produced from these breeding animals. Direct sales involve a significantly larger upfront sales value that includes the premium payable for the genetics involved but the farmer can continue to use the animals for future matings without making any further payments.

The outsourcing of porcine multiplication combined with sales being made under royalty contracts produces a more robust and consistent profit performance than would otherwise be achievable at times when pig prices fluctuate and pig production profitability is low. Over 99% of the Group's multiplication requirements are outsourced. Approximately 67% of the Group's porcine sales by volume are under royalty contracts, including virtually all sales in North America.

At this stage of the development of the Far East markets, direct sales rather than royalty contracts are being used for the majority of sales.



## Our World Today

An increase in world population and urbanisation will drive up consumption of beef, pork and milk across the world as incomes rise and diets change...

Our population is rising fast. Between 1950 and 2011, the world population has grown from 2.6 billion to almost 7 billion: the UN population forecast for 2050 is 9.2 billion. 82% of people live in the developing world. Here, average growth rates are even faster, outstripping growth in the developed world by a factor of nine times.


This huge increase in world population will drive a rapid expansion in urbanisation. In 1950, only 29% of the population lived in an urban environment; today it's about 50% and that's 3.5 billion people. By 2050, forecasts suggest that this will reach 6.4 billion, around 70% of the population, with growth concentrated in the less-developed regions.

As economies grow and industrialisation continues, per-capita incomes rise giving people more disposable income. Households spend more on higher-value food (meat and dairy) and this trend is likely to continue, reinforcing both near and long-term global demand.

Economic prosperity is creating changes in global eating patterns. It is not so much the billion additional mouths at the bottom of the consumption pyramid that are creating pressure, but the burgeoning middle class in the emerging markets. Significant rises in incomes over the past five years in India alone have created 220 million consumers of meat, fish, eggs and milk.







Clearly there will be many more consumers in the world to feed, many of these will be considerably wealthier and as a result, will demand higher quality, added value food.

This accelerating consumption of meat and dairy products acts as a catalyst for the industrialisation of food production. Greater demand is being placed on finite land, water and energy resources by increased food consumption and the competing demands on these finite resources of alternative energy sources.

Combine this with adverse weather conditions that have lead to poor harvests, for example in Russia and Australia, and by necessity farming practices must evolve.

This is driving the move towards greater industrialisation of farming. To maintain a profitable and sustainable operation now and in the future, farmers have been compelled to seek new ways to improve both the productivity of their operations and the overall quality of their product offering.

Genus plays an increasingly important social and economic role, enabling our global customers to produce quality foods efficiently and to meet the increasing demands of sustainable agriculture.

# Strategy Review

## Target Research & Product Development

**Genus spends approximately 8% of sales (£25m per annum) on research and product development.**

- **Genus has 30 of the top 100 bulls in the important US bull rankings**
- **Independent trials demonstrate Genus' pigs deliver a US\$3 per pig advantage**

### Product Development

The product development activities are focused on using natural selection techniques together with leading biotechnology, such as genomic evaluations, continually to improve the Company's proprietary lines of breeding animals.

In bovine, we operate a five year selection and testing programme for the identification of new bulls. This continuously regenerates and enhances the stud of elite animals whose semen is collected for sale.

The porcine development programme is centred on the Group's two porcine genetic nucleus herds located in the USA and Canada. A sophisticated breeding programme is operated involving nine major pure lines of animals to develop elite boars and gilts to be multiplied to agricultural quantities and sold by the Group's operating businesses. Quantitative genetics and cross-bred trials in commercial herds are used to enhance the selection process.

The success of the product development programme is demonstrated by Genus' world leading product range. For example, we have 30 of the top 100 bulls in the internationally important US bull rankings; well ahead of any competitor. In porcine, independent third party trials demonstrate an average US\$3 per pig advantage compared to competitors.

### Research

Research activities are targeted at projects which will both enable a reasonable likelihood of a technological breakthrough and offer commercial benefits, such as the Genus sexed semen project. The Group manages much of its fundamental research in educational establishments and with specialist research companies. In addition Genus monitors work undertaken in more than 500 research establishments around the world.



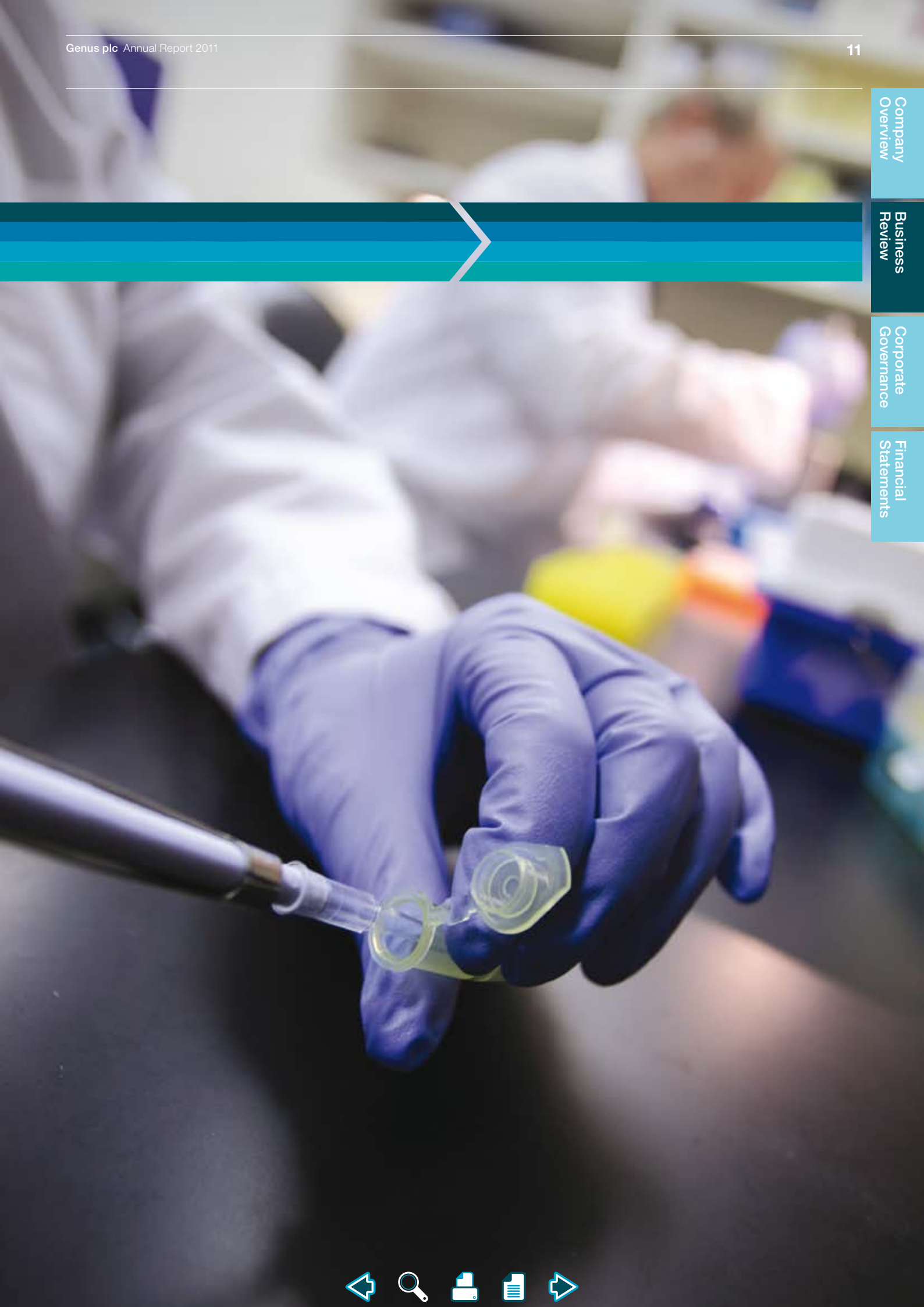
### Genus uses genomics to solve pig robustness issues

Pig mortality and scrotal hernia are traits where genomic selection can have a large impact: lowly heritable, requiring large commercial datasets to estimate breeding value, and of high economic importance to customers.

Genus researchers last year used high density SNP (genetic marker) chips to search for significant marker-trait associations in porcine data. The result was an affordable test that improves the accuracy of selection by 38.7% for scrotal hernia and 58.6% for finisher mortality.

Genus R&D in this area has dramatically accelerated the rate of improvement delivered to customers.





Company  
Overview

Business  
Review

Corporate  
Governance

Financial  
Statements



## Strategy Review

# Enhance Global Production Development Facilities

2

- > **Two year US\$30m investment programme to expand capacity completed**
- > **Global bull development programme expanded to over 400 bulls per annum**

Over the last two years, the Company has invested US\$30m in expanding its central product development facilities, to increase its product development capabilities and to expand production capacity by over 30%.

In the year to 30 June 2011, we completed the final part of this investment programme and the new porcine genetic nucleus farm in South Dakota, USA became fully operational.

The increase in bovine product development facilities was completed in the previous year and has enabled the bovine product development programme in the USA to be increased to 317 bulls per annum. Worldwide, the bull development programme has now been expanded to an annual intake of over 400 bulls per annum across the six primary studs located in the USA, Canada, Brazil, the UK, Italy and Australia.

Investment in our global product development facilities is ongoing.



### New Genetic Nucleus facility opens in North America

The new state of the art Genetic Nucleus (GN) facility became fully operational during 2011. This complex in South Dakota supports our growth strategy by supplying the most competitive available PIC genetics.

The site houses a population of 3,000 sows, and over 90,000 gilts and boars were on and off tested during the first year. Of those, the top 15% selected breeding boars and gilts were distributed in over ten countries to provide our customers with advanced genetic material.

Results so far match the world-class performance at Aurora, our GN facility in Canada.





# Strategy Review

## Capture Growth in Developing Markets

- > **Strong growth across Latin America and the Far East regions, with sales 17% higher**
- > **Investment made to provide locally supplied product in RIC countries**

Genus' business in Latin America and the Far East (including Russia) is operating in fast growing agricultural markets. The objective is to capture up to 50% of the new growth available in these markets.

Genus has already been operating in a number of the countries of Latin America for some time including Mexico, Brazil, Argentina and Chile. We recently opened a new business in Colombia, the third largest cattle market in Latin America. Local production facilities such as the bull stud in Uberaba in Brazil were established in the region a number of years ago. This stud is being used to achieve strong volume growth and increased market share across the region.

The successful approach proven in Latin America is being emulated in the expansions of business in the Far East region, by establishing local production and supply in the RIC countries.

The strategy in porcine is to supply quality breeding animals to customers from locally owned or sub-contracted production. In the large Chinese market, this is being achieved through building our own production nucleus farms. We now have four such farms in operation and a further two farms under development.

In bovine, Genus' strategy is to provide a differentiated product by supplying locally produced semen from progeny-tested bulls. These are being marketed alongside imported semen from our global studs. We now have 48 bulls providing semen in China that were shipped from our Australian stud and nine bulls in Russia that were shipped from the USA. In India, we are marketing locally sourced semen and are developing plans to introduce progeny-tested product into the market.

Strong growth is being achieved across the Latin American and Far East regions, with sales up 17% in the year to 30 June 2011.



### Global partnerships satisfy Chinese appetite for pork

The 48 million sows in China account for 50% of the global sow herd, and pork remains the meat of choice for China's 1.3 billion people.

Genus has capitalised on these changes by forging successful new global partnerships. We are currently working with Besun Food Group in Shaanxi Province, which produces 100,000 pigs a year, by stocking its 4,500 sow high health breeding unit from one of our nucleus units in China. The partnership also includes Pipestone Swine Systems, a US company that is managing Besun's production operations.







# Strategy Review

## Continue Growth in Developed Markets

4

- > **6% growth in sales in the year to 30 June 2011**
- > **Additional revenue achieved through new programmes such as CBVPlus**

Our objective is to continue to grow in the developed markets of North America and Europe in line with historical growth rates. This will be achieved through the successful marketing of an improved product offering supported by specialist customer services.

Increased emphasis is being placed on our global product management to ensure we have the right product ranges available for each of the markets in which we operate. For example, in the North American porcine business, our new CBVPlus programme is being used to provide higher quantity genetics to our customers and generate additional revenue for Genus.

In bovine, semen sales are being enhanced by the marketing of added value services such as 'GMS' genetic mating services and 'RMS' reproductive management service. These services also increase customer loyalty.

Additional business opportunities continue to be exploited, such as the Powerline Beef Genetics business, acquired in 2010. This provides speciality beef genetics to large US suppliers.

In the year to 30 June 2011, the strength of the Genus' product range and additional services provided contributed to a 6% growth in sales in the developed market countries.



### GMS system builds genetic value in large dairies

With so many inputs and the need for return on investment while feed prices are high, dairy managers may lose sight of the need to invest in the genetic value of their herd.

Now, by using the Genus Genetic Management System® and its herd percentile ranking tool, dairy managers can see the link between cow performance and an animal's genetic level. This makes it possible to predict a return on genetic investment, which enables customers to use better genetics and improve profitability.





Company  
Overview

Business  
Review

Corporate  
Governance

Financial  
Statements

# Market Overview

- > **Producer profitability restored in most markets, despite feed price increases**
- > **Favourable market conditions encouraged producers to return to updating their genetics**
- > **Latin America & porcine market in North America particularly buoyant**
- > **Porcine market improved strongly during the year in China but remained weak in Europe**

## +24%

increase in US milk prices

## +60%

increase in pig prices in China

## -4.0%

reduction in demand in porcine Europe

### Market Overview

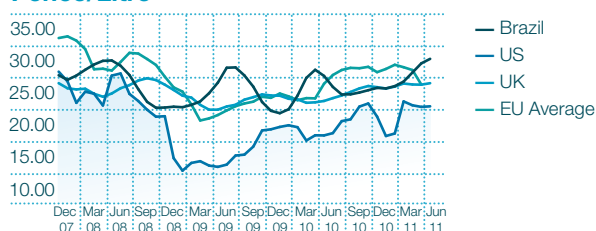
The recovery in agricultural markets that began in the second half of the year to June 2010 became increasingly evident during the first half of the current financial year. As the year progressed, prices continued to improve in most markets and producer profitability was restored, despite the significant rise in feed prices that occurred.

These evolving favourable market conditions encouraged producers to return to updating the genetics in their herds. As a result, demand for Genus' products improved steadily during the year. This improvement was evident in most markets with the exception of the European pig market which remained depressed and the Far East market that did not pick up until the final quarter.

### Dairy and Beef

Milk prices across the world have risen steadily over the last two years as markets rebounded from the recession. This was particularly noticeable in the US market where prices had fallen dramatically during the recession. During the year to 30 June 2011 US milk prices rose progressively 24% to reach 23ppl at the year end. At this level, farmer profitability has been restored.

### International Dairy Prices Pence/Litre



In the light of these favourable market conditions, demand for semen was reasonable in developed markets. In the developing markets of Latin America and the Far East, there was strong and growing demand. Enlightened farmers looking to expand also created increased demand for sexed semen to support the rapid growth of their herds.

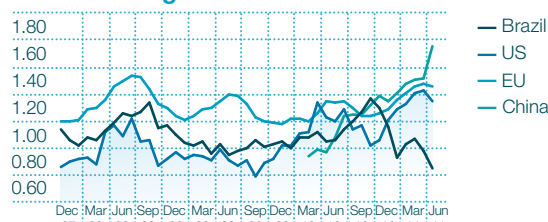
In beef markets, cattle prices have also been firming.

### Pigs

In the US pig market, producers had cut back their herds during 2009 and 2010. This together with the recovery in demand for pig meat and for exports resulted in significant increases in pig prices throughout 2010 and into 2011. As a result, pig producers' profitability was restored.

As feed prices rose during the year, pig prices increased further to maintain a profitable outlook for producers. This restored producer confidence and consequently producers returned to updating the genetics in their herds.

### International Pork Prices Pounds/Kilograms



Similar trends occurred across Latin America, other than in Brazil where export demand was weak in the second half of the year due to the temporary closure of the Russian market to imports from Brazil. Consequently pig prices softened for a period, although they are expected to strengthen once export potential has been restored.







However, in Europe, increases in pig prices have been insufficient to offset higher feed costs. This means producers have been rendered loss-making at a time when many of them are assessing the need for investment to upgrade farms to meet European welfare legislation being introduced in 2013. This has adversely affected demand for breeding animals as producers held back on investment plans.

In China, pig prices remained depressed for most of the year due to disease in their herds that resulted in widespread slaughtering. As capacity reduced, pig prices rose strongly towards the end of the year and have now reached 19 renminbi (£1.80) per kilogram (60% up over the prior year). At these price levels, producers are very profitable and there should be high demand for good quality genetics to replenish their herds.



# Review of Operations

## The Americas

### Revenue (£m)

2011	161.5
2010	141.6
2009	143.1

### Adjusted Operating Profit (£m)

2011	48.8
2010	43.3
2009	40.6

### Adjusted Operating Margin (%)

2011	30
2010	31
2009	28

“Sales across the region rose by 14% to £161.5m and profits increased by 13% to £48.8m.”

Bill Christianson  
Chief Operating Officer  
The Americas



The region had a successful year. Market improvements particularly in Latin America and the porcine sector in North America encouraged customers to invest in the genetics for their herds. As a result, sales across the region rose by 14% to £161.5m and profits increased by 13% to £48.8m.

### North America

	Actual Currency			Constant Currency
	2011 £m	2010 £m	Movement %	Movement %
Revenue	114.5	103.0	11	13
Adjusted operating profit	35.3	30.9	14	15
Adjusted operating margin	31%	30%		

Revenue rose 11% to £114.5m and operating profit increased by 14%. The improvement in profit was driven by strong sales growth in porcine and improved margins and tight cost control in bovine.

Market conditions in porcine improved considerably during the year. As a result, despite higher feed costs, producer profitability was restored and this led to increased sales of Genus' breeding animals as customers returned to updating the genetics in their herds. A number of new accounts were won and increased business was achieved with existing customers. This resulted in an improved market share, up from 33% to 35% with more than 50% of the pigs in the US market now containing Genus genetics. In addition, increased sales of enhanced genetics under the recently introduced CBVPlus programme increased royalties and improved margins on existing accounts.

In bovine, milk prices improved gradually during the year and enabled farmers to return to profitability towards the end of the year. Bovine volumes were down 2% but this was entirely

due to a few accounts being lost last year in Western California following a change in sales management in the area. Early in the year, a further \$2.5m of annualised cost savings were implemented and the sales organisation reconfigured. The resultant tighter sales management enabled the business to stabilise volumes and improve average selling prices. These steps resulted in a strong increase in profits for the year and the business being well positioned for the year ahead.

### Latin America

	Actual Currency			Constant Currency
	2011 £m	2010 £m	Movement %	Movement %
Revenue	47.0	38.6	22	21
Adjusted operating profit exc JV	13.5	12.4	9	7
Adjusted operating profit inc JV	16.3	14.5	12	11
Adjusted operating margin exc JV	29%	32%		

Latin America achieved another record year with growth in revenue of 22% and profits up 12% including the contribution from the joint venture in Brazil.

We continued to invest in expanding our presence in this fast growing region. A new general manager was appointed to oversee both the bovine and porcine activities. This is enabling the two sectors to operate together more effectively as they grow. For example, key account management for porcine customers is now being handled across the region in one structure with technical services unified across the Americas. As a result, we are using our strongest people to manage key accounts regardless of location.

In buoyant markets, bovine semen sales grew by 17%. Argentina performed particularly well achieving sales growth







## Case Study CBVPlus programme delivers dramatic value in the Americas

of 25%. Market share also improved in Mexico and Uruguay. More customers were converted to using reproductive management services ('RMS'). This increases customer loyalty and was a contributory factor in achieving improved average selling prices. A new business unit was opened in Colombia, the third largest cattle market in Latin America, and has made an encouraging start.

In porcine, the sale of breeding animals was strong as the improved market encouraged customers to update the genetics in their herds. Mexico and Chile both increased market share and important contracts were renewed at improved royalty rates. During the year, a new genetic transfer centre in Mexico containing 400 boars was completed. This is the largest and most modern of its kind in Latin America.

The joint venture in Brazil also had a good year benefiting especially from strong pig prices in the first half of the year. Progress has been made in converting customer royalty contracts from revenue based to volume based royalties.

**During this business year, we have focused on the CBVPlus programme – an innovative strategy that enables us to calculate the relative value of the boars on our nucleus farms.**

Progeny from CBVPlus sires deliver US\$1.33 to US\$1.75 per pig more profit than the average boar, and CBVPlus category boars are certified as free of reciprocal translocations, a genetic defect that can reduce litter size by 50%.

Sales of CBVPlus have rocketed by over 400% this year, as producers are willingly applying technologies that improve production costs and increase revenue.



# Review of Operations

## Europe & Far East

### Revenue (£m)

2011	149.2
2010	145.0
2009	140.6

### Adjusted Operating Profit (£m)

2011	25.8
2010	27.0
2009	24.9

### Adjusted Operating Margin (%)

2011	17
2010	19
2009	18

“Good progress was made with the strategy for growth in the Far East region.”

Philip Acton  
Chief Operating Officer  
Europe & Far East



On sales up a modest 3%, profits were 4% lower at £25.8m.

In Europe, profits were held back by the difficult market conditions for pig producers and performance in the Far East was depressed until the final quarter by disease in the pig markets in China. Good progress was made with the strategy for growth in the Far East region.

### Europe

	Actual Currency 2011 £m	2010 £m	Movement %	Constant Currency Movement %
Revenue	113.3	112.9	–	2
Adjusted operating profit	18.4	19.0	(3)	(3)
Adjusted operating margin	16%	17%		

Performance in Europe was held back by the difficult trading conditions in porcine and this resulted in profits being marginally lower at £18.4m.

With rising milk prices across Europe, Genus' dairy semen revenues increased. Volume rose 10%, aided by strong growth in certain distributor markets including Turkey and Saudi Arabia. In the higher margin French market, volume rose strongly and profitability benefited from an improved mix. Profit in Italy also improved because of an improvement in the ranking of the bulls in the local stud. In the UK market, volume rose more modestly underpinned by good growth in RMS sales. Overall, bovine profitability edged ahead, although net margins were reduced by higher distribution costs, particularly in the UK as fuel and other prices rose steeply.

In porcine, poor market conditions across Europe and concerns over 2013 welfare compliance have led to weak demand and, as a result, sales of breeding animals were

lower. Despite this, several markets, including the UK and distributors, performed well. However, elsewhere volumes fell and overall sales were down 4%. Profits in Genus' small farming operations in the Czech Republic, Poland and Romania were also lower. Cost reductions were implemented including the closure of the Kingston office in the UK. With the expectation of only gradual improvements in the market in the short term, plans are being developed for further productivity improvements.

### Far East

	Actual Currency 2011 £m	2010 £m	Movement %	Constant Currency Movement %
Revenue	35.9	32.1	12	5
Adjusted operating profit exc JV	7.4	8.0	(8)	(6)
Adjusted operating profit inc JV	7.7	8.1	(5)	(4)
Adjusted operating margin exc JV	21%	25%		

Good progress was made in pursuing the growth strategy for the region. However, financial performance was held back by poor market conditions in the first half of the year particularly in the porcine business in China, Korea and Vietnam.

The management team was strengthened by the appointment of a new regional manager and the establishment of a regional office with support functions in Shanghai. In addition, in recognition of the growing importance of our business in China, a new country manager was recruited for this business.

In bovine, we established local production in Russia and India and extended the number of stud animals in China. In Russia, a new stud was acquired and has been refurbished to Genus' standards. The stud became operational in August 2011.





## Case Study

New Russian  
production facility  
signals expansion

In India, we entered into a commercial agreement with Chitale Dairies to establish a bull stud in the South West. This has enabled the marketing of semen from locally sourced bulls. A further 17 bulls have been shipped from Australia to China to bring the total number of progeny-tested bulls available for production in China to 48. The above initiatives have driven strong volume growth of 29% across the region.

Sales increased in porcine as the additional capacity from our new farms in China came on stream. However, profitability in the first half of the year was adversely affected by depressed pig prices and the temporary impact of widespread disease. The reductions in producer herds and supply of animals led to rising pig prices and increased demand in the second half of the year. This in turn resulted in improved profitability. Important new business has been won with the benefit of the increased focus being placed on large key accounts, including international companies expanding in China. In Russia, lack of available funding impacted customer demand, however excellent progress has been made with the country's three largest producers in securing new stockings that will yield future revenue.

**Genus is the only global producer that offers its customers local services in the growing markets of Russia, India and China. A new Genus bovine production facility in Krasnodar firmly establishes the Company's strategic expansion strategy in Russia. As in India and China, local production will supplement imported semen sales.**

Target customer farms are advanced large commercial operations that require high quality genetics, sourced locally, to achieve their breeding goals.

Nine proven bulls from North America were shipped to the Russian stud in May and the sale of imported semen is progressing well.



# Review of Operations

## Research & Product Development

### Research (£m)



### Bovine Product Development (£m)



### Porcine Product Development (£m)



Ian Biggs  
Head of Global Product  
& Business Strategy

	Actual Currency		Constant Currency	
	2011 £m	2010 £m	Movement %	Movement %
Research & Product Development Costs	25.3	23.5	8	7

The cost of the expanded Research and Product Development programme increased by 8% to £25.3m. Bovine product development rose as a result of the increased size of the bull development programme to provide capacity for anticipated growth. Porcine development includes increased cost as the use of genomics was further extended in the development programme. The impact of higher feed prices on porcine development costs was offset by improved slaughter sales.

### Bovine Product Development

The expansion of the bull development programme has continued with 278 Holstein bulls joining the programme during the year in the USA. This brings our worldwide programme to over 400 bulls per annum. We plan to increase the animal intake in the USA in the year ahead to 300 bulls per annum. The expanded programme is necessary to meet the anticipated growth in volumes but will also enhance the selection process. In addition, genomics are increasingly being used to further improve selection. Our internal evaluations give us confidence in the continued improvement in the merit of the stud, which we expect to be reflected in future bull rankings.

During the year, 56 bulls graduated from our progeny test programmes into our production studs throughout the world. We have also developed bulls to be shipped for local supply in emerging markets. A further 17 bulls were shipped to China from Australia and 9 bulls from the USA to the newly established bull stud in Russia.

### Porcine Product Development

Independent porcine product trials continue to demonstrate the market leadership of Genus' porcine genetics. The new genetic nucleus farm in South Dakota became fully operational during the year. The enlarged herd has enabled an increase in selection pressure. The dedicated cross-bred trials undertaken in our own farms together with the extended use of genomics and data from our extensive 'PIC Traq' database are enabling improved accuracy of selection. The combination of increased selection pressure and improved accuracy should ensure our products remain world market leaders in the porcine sector.

### Fundamental Science

The Group manages much of its fundamental research in education establishments and with specialist research companies. However, as Genus is a market leader in this sector, all work on semen physiology and freezing is carried out in-house. In addition, Genus monitors work undertaken in more than 500 research establishments around the world so that it can quickly identify progress in other biotech industries that might have potential in Genus' research programme.





## Case Study

## A Genus 'five star hotel' for bulls in Wisconsin

This approach enables Genus to achieve more progress than would normally be expected from the current level of expenditure directed towards fundamental science.

Research activities continued to be targeted at projects that will both enable a reasonable likelihood of technological advance and offer significant commercial benefit to the business if successful. The Group's Science Committee approves projects for inclusion in the programme and monitors overall progress.

In the current year, the use of genomics has shown impressive improvements in our ability to calculate accurately estimated breeding values, important in our product development selection process. Good progress is also being made with our sexed semen project.

**Genus recently added a globally qualified production barn to its new facility in Dekorra, Wisconsin. The two existing bull rearing barns can house 180 bulls, while the new facility allows the production of over five million units of semen. The bulls have roomy, individual deep bedded pens, there is a hospital room and even underfloor heating to combat chilly winters.**

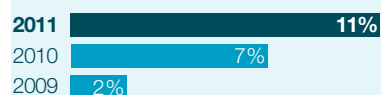
In the last twelve months, bulls at Dekorra have produced over 1.7 million units of semen, which have been shipped and sold in over 70 countries around the world.



# Key Performance Indicators

We have clear objectives to deliver organic growth in both species, drive operating profitability and generate cash. The following indicators are used to monitor Genus' progress in achieving its objectives.

## Bovine Sales Volume



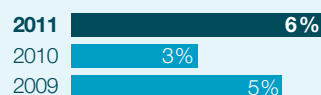
### Definition

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

### Performance

Volumes grew 11% to 14.7m doses driven by strong growth in volumes in the Far East and Latin America. This included semen from the recently established local production facilities in India and China. Semen volumes supplied from global studs increased by 5%.

## Porcine Sales Volume



### Definition

The change in the volume of both direct and royalty animals on which we receive revenue.

### Performance

After a slower year last year during the agricultural recession, this year has seen a bounce back to growth of 6% as customers returned to updating the genetics in their herd. Performance in the Far East, where newly established farms came on stream during the year, and North America have been particularly strong.

## Cash Conversion



### Definition

Cash generated from operations before interest and taxes, expressed as a percentage of adjusted operating profit.

### Performance

Cash conversion continued to be good benefiting from tight working capital management and lower capital expenditure. This was achieved despite increased investment in the bull development programme and additional deficit repair contributions paid into the pension schemes.

## Porcine Revenue: % Royalty



### Definition

The proportion of revenue stemming from royalty arrangements expressed as a percentage of total porcine revenue. This is a key indicator of Genus' success in converting porcine customers from direct sales to the more robust royalty model.

### Performance

The proportion of porcine revenue contributed by the royalty model grew to 40% in the year ended 30 June 2011 benefiting from further progress in converting customers to the royalty model in the developing markets.

## Net Debt to EBITDA



### Definition

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

### Performance

The ratio has reduced during the year ended 30 June 2011 from 1.7 to 1.4, reflecting the strong cash generation that enabled net debt to be reduced from £80.0m to £67.9m.

## Return on Capital Employed



### Definition

Return on capital employed ('ROCE') is defined as adjusted operating profit expressed as a percentage of historical (non IAS 41 adjusted) gross assets.

### Performance

ROCE has increased from 15.5% last year to 17.0% as at 30 June 2011. This improved return reflects the increase in operating profit through the year and a consolidation of the asset base after the major investments in prior years in extending product development capacity.





## Revenue

	Actual Currency			Constant
	2011 £m	2010 £m	Movement %	Currency Movement %
<b>Americas</b>				
North America	114.5	103.0	11	13
Latin America	47.0	38.6	22	21
<b>Total</b>	<b>161.5</b>	<b>141.6</b>	<b>14</b>	<b>15</b>
<b>Europe and Far East</b>				
Europe	113.3	112.9	—	2
Far East	35.9	32.1	12	5
<b>Total</b>	<b>149.2</b>	<b>145.0</b>	<b>3</b>	<b>2</b>
<b>Regional Total</b>	<b>310.7</b>	<b>286.6</b>	<b>8</b>	<b>9</b>
Intersegment and other	(0.8)	(1.3)		
<b>Group Total</b>	<b>309.9</b>	<b>285.3</b>	<b>9</b>	<b>9</b>

<b>2011</b>	<b>309.9 m</b>
2010	285.3 m
2009	280.4 m

### Definition

Sales of products and services analysed by region. The change in revenue is also shown on a constant basis to indicate underlying sales trends.

### Performance

Revenue grew by 9% in both actual and constant currency as a result of renewed demand for Genus' products. In the developing markets, sales were up 14%, and in the mature markets focus on product management helped achieve growth of 7%.

## Regional Operating Profit

	Actual Currency			Constant
	2011 £m	2010 £m	Movement %	Currency Movement %
<b>Americas</b>				
North America	35.3	30.9	14	15
Latin America	16.3	14.5	12	11
<b>Total</b>	<b>51.6</b>	<b>45.4</b>	<b>14</b>	<b>14</b>
<b>Europe and Far East</b>				
Europe	18.4	19.1	(4)	(3)
Far East	7.7	8.1	(5)	(4)
<b>Total</b>	<b>26.1</b>	<b>27.2</b>	<b>(4)</b>	<b>(3)</b>
<b>Regional Total</b>	<b>77.7</b>	<b>72.6</b>	<b>7</b>	<b>7</b>

<b>2011</b>	<b>77.7 m</b>
2010	72.6 m
2009	67.6 m

### Definition

Regional operating profit including JV income, stated before research and development and central costs, and before the impacts of IAS 41 (biological assets), share-based payment expense, amortisation of acquired intangibles and exceptional items.

### Performance

Regional operating performance grew by 7%. Strong growth was achieved in North America, particularly in porcine, and Latin America in both species. This was partly held back by tough trading conditions in porcine Europe and porcine Far East.

## Regional Operating Margin

	Actual Currency	
	2011 %	2010 %
<b>Americas</b>		
North America	30.8	30.0
Latin America	34.7	37.6
<b>Total</b>	<b>31.9</b>	<b>32.1</b>
<b>Europe and Far East</b>		
Europe	16.2	16.9
Far East	21.4	25.2
<b>Total</b>	<b>17.5</b>	<b>18.6</b>
<b>Regional Total</b>	<b>25.1</b>	<b>25.4</b>

<b>2011</b>	<b>25.1 %</b>
2010	25.4 %
2009	24.1 %

### Definition

Regional operating profit expressed as a percentage of regional revenue.

### Performance

The regional operating margin reduced slightly from 25.4% to 25.1% reflecting the strategy to develop the RIC markets, in which locally supplied product has reduced the average selling prices.

# Financial Review

## Revenue (£m)

2011	309.9
2010	285.3
2009	280.4

## Adjusted Operating Profit (£m)

2011	42.2
2010	39.9
2009	38.1

## Adjusted Operating Margin (%)

2011	13.6
2010	14.0
2009	13.6

John Worby  
Group Finance Director



## Adjusted Performance

Adjusted operating profit and adjusted profit before tax are the measures used by the Board to monitor underlying profitability.

The following non-cash or non-recurring items are excluded from adjusted operating profit:

- > Net IAS 41 valuation movement on biological assets;
- > Amortisation of acquired intangible assets;
- > Share-based payment expense; and
- > Exceptional items.

## Exchange Rates

The key average and year end exchange rates used to translate the results for the year were as follows:

	Average		Closing	
	2011	2010	2011	2010
US Dollar/£	1.60	1.58	1.61	1.50
Euro/£	1.16	1.14	1.11	1.22

Overall, exchange rate movements had a minimal impact on reported results for the year.

As in previous years, we have shown changes in performance on a constant exchange rate basis in the Review of Operations.

## Revenue

Revenue grew by 9% from £285.3m to £309.9m, with North America and Latin America being the major contributors to the growth in sales.

## Adjusted Profit Before Tax

	2011 £m	2010 £m
Adjusted operating profit	42.2	39.9
Share of JV profits*	3.1	2.3
Adjusted operating profit inc JVs	45.3	42.2
Net finance costs	(6.3)	(9.3)
Adjusted profit before tax	39.0	32.9

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

Adjusted operating profit including joint ventures increased by 7% to £45.3m (2010: £42.2m) and adjusted profit before tax increased by 19% to £39.0m (2010: £32.9m). The percentage improvement in profits before tax was also 19% at constant exchange rates.

Genus manages its global operations on a regional basis and monitors product performance globally. A detailed review of operating profit performance by region is set out in the Review of Operations on pages 20 to 25.



A review of performance by species is set out below:

### Performance by Species

	Actual Currency		Constant Currency	
	2011 £m	2010 £m	Movement %	Movement %
<b>Revenue</b>				
Bovine	<b>155.1</b>	145.9	6	6
Porcine	<b>145.7</b>	133.8	9	9
Research & Product Development	<b>9.1</b>	5.6		
<b>Total</b>	<b>309.9</b>	285.3		
<b>Adjusted (operating profit) inc JVs</b>				
Bovine	<b>19.7</b>	18.9	4	5
Porcine	<b>36.6</b>	33.5	9	11
Unallocated	<b>(11.0)</b>	(10.2)		
<b>Total</b>	<b>45.3</b>	42.2		

Bovine sales increased by 6%. Volumes grew 11% to 14.7m doses driven by strong growth in business from the new local studs in China and India. Sales volumes from semen supplied from our global studs increased by 5%, broadly in line with the historic average. The change in mix from the strong growth in locally supplied semen resulted in a small reduction in average selling prices. The average selling price of product supplied from our global studs, which account for over 80% of current volume, was up 1%. With overall volume growth and cost reductions implemented, particularly in the USA, profitability improved.

Porcine revenues grew by 9%, with royalty income up 6% to £52.2m. Sales of breeding animals rose by 14% as customers returned to updating the genetics in their herds following the slowdown experienced during the global recession. Overall volume growth was 6%. Costs remained well controlled and profits rose as a result of the strong sales growth.

### Finance Costs

Net finance costs reduced by £3.0m to £6.3m (2010: £9.3m). The net interest cost on pension liabilities was considerably lower. In addition, bank interest costs fell through a combination of lower net debt, tighter management of working capital and a reduced average interest rate as the fixed rate swaps entered into at the time of the Sygen acquisition matured.

### Exceptional Items

There was a £1.2m (2010: £2.8m) exceptional credit this year. This included a £0.6m favourable insurance recovery relating to an environmental liability settled a number of years ago. In addition, there was a £0.6m curtailment gain from the closure of the only remaining defined benefit scheme open to future accrual. The Group's main defined benefit scheme closed in 2010 and gave rise to the large exceptional credit reported last year.

### Statutory Profit Before Tax

Operating profit on a statutory basis was £44.8m compared with £47.0m last year and the statutory profit before tax was £40.8m (2010: 40.8m). These results include a still significant, but smaller increase in the net fair value credit on biological assets under IAS 41 of £9.8m (2010: £11.0m) and a higher share-based payment expense reflecting the improving earnings expected. As noted above, the underlying

performance as measured by adjusted operating profit including joint ventures showed growth of 7%, and adjusted profit before tax showed growth of 19%.

### Taxation

The effective rate of tax for the year, based on adjusted profit before tax, was 31.5% (2010: 33.7%).

The rate reduced in the year as a result of improved utilisation of losses previously considered irrecoverable. The effective rate remains higher than the UK corporate tax rate due to the mix of overseas profits, particularly the proportion of profits generated in North America, where the tax rate is approximately 40%.

### Earnings Per Share

Adjusted basic earnings per share rose by 22% to 44.8 pence (2010: 36.7 pence). The increase was slightly higher than the improvement in profit before tax reflecting the reduction in the Group's effective tax rate.

Basic earnings per share on a statutory basis were 49.0 pence per share (2010: 46.3 pence).

### Dividend

The Board is recommending to shareholders a 10% increase in the dividend to 13.3 pence per ordinary share. Subject to shareholder approval at Genus' forthcoming Annual General Meeting, this dividend will be paid on 25 November 2011 to shareholders on the register at the close of business on 11 November 2011. As noted in the Chairman's Statement, the Board intends to introduce an interim dividend in the year ahead.

Dividend cover remains strong with the dividend covered 3.4 times by adjusted earnings (2010: 3.0 times).

### Biological Assets

A feature of the Group's net assets is a substantial investment in biological assets which are required by IAS 41 to be held at fair value. At 30 June 2011, the carrying value of biological assets was £238.8m (2010: £235.7m) as set out in the table below:

	2011 £m	2010 £m
Non-current assets	<b>187.0</b>	175.5
Current assets	<b>27.3</b>	37.0
Inventory	<b>24.5</b>	23.2
<b>Total</b>	<b>238.8</b>	235.7
Represented by:		
Porcine	<b>74.6</b>	82.3
Bovine	<b>164.2</b>	153.4
<b>Total</b>	<b>238.8</b>	235.7

The small increase in the overall carrying value of biological assets masks an underlying increase in value of £13.9m offset by exchange rate movements as a result of the weakening of the US Dollar. The underlying increase was driven by an increase in the bovine biological assets. This arose from higher individual bull values as expected output per bull increased together with higher anticipated realisations as a result of the quality of the stud. The value of porcine biological assets was lower due to the impact of increased selection pressure on the herd. This results in more of the existing herd being sold for slaughter. Under IAS 41, the value of the animals retained for



# Financial Review *continued*

breeding does not reflect the improved royalty income expected to be achieved from these animals.

## Cash Flow and Net Debt

	2011 £m	2010 £m
Cash generated by operations	<b>39.2</b>	40.5
Interest, tax and dividends	<b>(18.3)</b>	(20.5)
Capital investments	<b>(4.8)</b>	(9.1)
Other	<b>0.9</b>	2.0
Net cash inflow before swap settlement	<b>17.0</b>	12.9
US Dollar swap settlement	<b>(7.0)</b>	–
Net cash inflow	<b>10.0</b>	12.9

The Group had a strong cash flow performance, with a net cash inflow of £17.0m (2010: £12.9m) before the £7.0m outflow relating to the settlement of a US Dollar swap transaction hedging the Group's US Dollar net asset position.

Cash generated from operations was £39.2m compared with £40.5m last year. The benefit of improved profits was offset by the increased investment in biological assets as the bull programme was expanded and by a £1.5m increase in pension deficit repair contributions.

Capital investment in the year reduced to £4.8m in line with depreciation following the completion of the Group's investment in extending capacity to meet future growth.

Net debt was reduced from £80.0m to £67.9m at 30 June 2011. In addition to the cash inflow for the year, borrowings reduced by £2.9m due to exchange rate movements on that part of the Group's debt denominated in US Dollars.

In March 2011, the Group completed a refinancing of its existing facilities to provide £135m of facilities on an unsecured basis through to September 2015. The Group has substantial headroom under these facilities. The lower margins applicable to the new facilities are expected to reduce interest costs in the year to 30 June 2012 by £1.5m.

The Group's financial ratios remained strong. Gearing reduced from 32% to 25%. Interest cover, based on net interest excluding interest on pension liabilities, improved to 7.9 times (2010: 6.3 times).

## Retirement Benefit Obligations

The Group's retirement benefit obligations at 30 June 2011, calculated in accordance with IAS 39, were £23.6m (2010: £28.8m) before tax and £17.5m (2010: £20.3m) net of related deferred tax. The reduction in obligations in the year arose from a lower deficit in the Group's defined benefit pension scheme operated as part of the Milk Pension Fund, a multi-employer scheme. This deficit fell from £20.3m to £14.3m due to a higher than expected return on the scheme assets.

During the year, revised deficit funding contributions were agreed with the Milk Pension Scheme, following

the finalisation of its triennial actuarial valuation at 31 March 2009. As a result, the total annual deficit contributions payable in respect of the Group's defined benefit scheme have increased by £1.2m to £1.9m.

## Treasury

The Group has a centralised treasury function to manage foreign exchange and interest rate risk following guidelines laid down by the Board. Derivative instruments are used solely to mitigate risks.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks.

### > Interest Rate Risk

Interest rate swaps are used to generate the desired interest profile and to manage exposure to interest rate fluctuations. The Group's policy is that normally between 60% and 90% of the Group's borrowings should be for fixed periods in excess of one year up to a maximum of five years. At 30 June 2011, 55% (2010: 85%) of the Group's borrowings were at fixed rates.

### > Foreign Currency Risk

The Group is exposed to two principal types of foreign currency risk: transaction risk and translation risk. Transactional exposures arise from operating units selling and/or purchasing goods and services in currencies other than their reporting currency. Where these exposures are large or other than short-term, they are hedged by the use of forward contracts. The Group has a policy to settle inter-company trading balances on a monthly basis to minimise foreign currency exposure.

Translation exposure arises on the re-translation of overseas subsidiary companies' profits and net assets into sterling for financial reporting purposes. Overseas trading is mainly US Dollar-linked and to a lesser extent, Euro. Exposures arising from the translation of overseas profits are not hedged. Translation exposures in respect of the net assets in overseas countries are managed by maintaining a percentage of net debt in overseas currencies to mitigate the effect of currency fluctuations. This is achieved by either borrowing in the relevant currency or entering into long-term currency swaps.

At 30 June 2011, gross debt was held in the following currencies: US Dollars 82% (2010: 78%), Euros 7% (2010: 10%), Sterling 11% (2010: 12%) after taking into account long-term currency swaps.

### > Liquidity Risk

The Group's objective is to ensure it has committed facilities with sufficient headroom to finance funding requirements for the foreseeable future. At the year end, the Group had undrawn committed facilities of £51m and held cash of £18.3m.



# Principal Risks and Uncertainties

Genus operates a structured risk management system which identifies, evaluates and prioritises risks and uncertainties and actively reviews control and mitigation activities. Detail of the risk management system can be found in the Corporate Governance Statement on page 40. Genus has continued to enhance the Group's risk management during the year by each of the regional

businesses conducting externally facilitated risk management workshops, the results of which were reviewed by the Company's Board of Directors. The principal risks and uncertainties facing Genus that could impact its performance together with actions that are taken by Genus to mitigate their impact on the Company are as follows:

Key Individual Risks	Mitigating Actions
<b>Markets</b> Achieving growth in developing countries	<ul style="list-style-type: none"> <li>&gt; Investment in local genetic production facilities</li> <li>&gt; Availability of superior product both locally produced and imported</li> <li>&gt; Development of supply and distributor network</li> <li>&gt; Strengthened management team and controls</li> </ul>
Sustaining growth in developed countries	<ul style="list-style-type: none"> <li>&gt; Market leading product and technical services</li> <li>&gt; Effective research programmes maintaining market lead</li> <li>&gt; Extensive supply and distributor networks</li> </ul>
IPR protection	<ul style="list-style-type: none"> <li>&gt; Strict controls of the Company's intellectual property</li> <li>&gt; Application of legal and contractual protection</li> </ul>
Impact of fluctuations in agricultural markets on customer profitability and demand	<ul style="list-style-type: none"> <li>&gt; Geographic diversity of businesses</li> <li>&gt; Use of the porcine royalty model</li> <li>&gt; Efficiency improvement programmes</li> </ul>
<b>Disease &amp; Environment</b> Ensuring continuity of supply worldwide in the event of a disease outbreak, environment incident or a border closure outside our control	<ul style="list-style-type: none"> <li>&gt; World class animal care practices, strict bio-security systems and pro-active environmental management with comprehensive staff training</li> <li>&gt; Dispersed and remote herd locations</li> <li>&gt; Business continuity programmes</li> <li>&gt; Utilisation of in-country local production</li> </ul>
<b>HR</b> Ensuring continuity of key staff	<ul style="list-style-type: none"> <li>&gt; Effective succession planning, development and training programmes</li> <li>&gt; Competitive retention and incentive packages</li> </ul>
Management of emerging markets	<ul style="list-style-type: none"> <li>&gt; Dedicated in-country regional management</li> </ul>
Health & safety	<ul style="list-style-type: none"> <li>&gt; Global health &amp; safety function</li> <li>&gt; Comprehensive staff training</li> <li>&gt; Monitored compliance with legislation</li> <li>&gt; Risk assessment and safety audits</li> </ul>
<b>Research &amp; Product Development Effectiveness</b> Maintaining commercial focus	<ul style="list-style-type: none"> <li>&gt; Ensuring optimum liaison between regional management teams as to market needs</li> </ul>
Product development and competitive edge	<ul style="list-style-type: none"> <li>&gt; Alignment of research investment with projected future commercial needs</li> <li>&gt; Product development enhancements and diversified product portfolio</li> <li>&gt; World class production facilities</li> </ul>
Focusing research projects to deliver benefits, e.g. sexed semen project	<ul style="list-style-type: none"> <li>&gt; Leadership by the Board's Science Committee</li> <li>&gt; Dedicated research project teams</li> <li>&gt; Strong relationships with technology partners</li> </ul>
<b>Finance</b> Pensions	<ul style="list-style-type: none"> <li>&gt; Agreement of appropriate actuarial valuations and deficit recovery plans with pension fund trustees</li> <li>&gt; Review of investment strategy</li> <li>&gt; Closure of pension funds to future service</li> <li>&gt; Monitoring of joint and several liability in the Milk Pension Fund</li> </ul>
Commodity prices	<ul style="list-style-type: none"> <li>&gt; Hedging policies</li> <li>&gt; Central treasury monitoring and review</li> </ul>



# Corporate Social Responsibility

“Genus plays an increasingly important social and economic role in the efficient production of quality foods.”

Richard Wood  
Chief Executive



## Sustainability in World Agriculture

Genus plays a key part in the world's agricultural economy and delivers many benefits to global society. Genus' unique position in the supply of superior natural animal genetics enables the world's farmers and food producers to ensure the supply of quality products with increasing output at improved production efficiencies. In the context of an ever increasing world population and decreasing resources available for food production, Genus plays an increasingly important social and economic role in the efficient production of quality foods.

Genus is committed to the highest standards of corporate and individual behaviour and actively considers the economic, social and environmental impacts of the Group's activities, wherever it operates in the world. By acting with the highest standards of business conduct, Genus earns the trust of its customers, shareholders, colleagues, suppliers, regulators and the communities in which it operates. Maintaining these standards is vital to the continued success and development of the Group.

All companies in the Genus Group follow procedures that are compliant with local laws and regulations and in many cases the Group's procedures exceed local requirements. The Genus Board has overall responsibility for corporate responsibility, assessing the needs of Genus' stakeholders regularly, and delegates day to day management of corporate responsibility issues to the Company's Operating Board in conjunction with regional management.

The Genus approach to corporate responsibility applies to the following key areas: the environment, our employees, health and safety, our stakeholder relationships and our community. The Genus principles of corporate responsibility apply to all our employees and set the minimum standard for their behaviour.

## The Environment

Genus recognises that concern for the environment is an essential part of its business operations and seeks to minimise risk to the environment by effective management of the Group's activities. Genus is committed to conducting its business in a manner that is sensitive to the environmental needs of the communities in which we operate. Our locations integrate environmental management into their operational systems and procedures: monitoring and reporting on environmental performance is an integral part of the Group's operations and a key part of the Group's risk management programme.

Genus operates an active policy of environmental compliance requiring as a minimum compliance with the laws and regulations applicable to its business in each of the countries in which it operates. In many cases, the Group's compliance exceeds local requirements. We assess environmental risks associated with existing and new facilities and establish controls to ensure that any risks remain at an acceptable level. Employees at our facilities receive a high level of training in environmental compliance matters and comprehensive environmental protocols are in operation at our facilities that are subject to independent checks.

## Our Employees

Genus places considerable value on the involvement and commitment of its employees. Our staff play a vital role in building a sustainable business and their skills, qualities and well-being underpin the Company's success.

Genus' employment policies respect the individual regardless of sex, age, race or religion. Full and fair consideration is given to applications for employment from disabled people and the services of employees who become disabled are retained wherever possible.



Company  
OverviewBusiness  
ReviewCorporate  
GovernanceFinancial  
Statements

Training, career development and promotion opportunities are provided throughout the Group, for example via the internet based Genus Global University. Our training and development programmes are designed both to equip employees with the necessary skills for their current roles and to enhance their careers. Employees are actively encouraged to attain a broad understanding of the Group's businesses to give a strong base in the Company's culture and ethics.

The Group has a well established structure to communicate with employees at every level to encourage their involvement and interest in the Group's performance and future activities. This is achieved through formal and informal meetings, internal communications, the Group's Genus World magazine and the Group's intranet.

We require all employees to act in an ethical manner both within the Group and in dealings with other organisations, and to comply with all applicable laws and Group policies.

### Health & Safety

Genus is committed to providing safe systems of work for its employees in all countries in which it operates and pro-actively monitors compliance with local regulations. This commitment is supported by a comprehensive training regime for the Group's employees. Genus has developed best practice farm and animal handling protocols that are deployed at all farm locations. These deal with the potential dangers of working with livestock and operating equipment and the provision of a safe working environment. The monitoring and reporting on the Group's health and safety performance is an integral part of the Group's operations and a key part of the Group's risk management programme.

Maintaining a consistently safe and healthy workplace for our people requires effective management. Under the supervision of a new Global Health & Safety Officer and strengthened

regional health and safety teams that were appointed in the period, we operate a pro-active network of health and safety personnel in our global facilities. Knowledge and experience is shared between facilities with the aim of cross-fertilising best practice and ensuring consistently high standards of safety across the Group. The Global Health and Safety Officer is responsible for monitoring and reporting adherence by the Company to the Group's health and safety protocols and regular inspections are made of the Company's sites by global health and safety staff.

### Our Stakeholder Relationships

#### Customers

Genus aims to provide products and services of the highest quality and technical standards appropriate to our customers' own requirements. At all times, Genus takes all reasonable steps to ensure the safety and quality of the products and services that it provides, including compliance with all applicable regulatory requirements.

#### Suppliers

Genus is committed to working with suppliers in mutually beneficial ways, and, so far as is practicable, requires that suppliers and contractors act in accordance with Genus' values and policies.

#### Our Community

As a responsible member of the communities in which it operates, Genus actively encourages its operating companies to engage positively with the local community in their areas of operation and in all aspects of community relations. At a Group level, the Company sponsors the Farm Business Awards and the John Beckett Foundation, a charity that provides business scholarships to young farmers.



# Board of Directors



## **Bob Lawson (66)**

### **Chairman**

Bob Lawson was appointed Chairman of the Board and the Nomination Committee in November 2010. He is Non-Executive Chairman of Barratt Developments plc. He is also a Director of The Federation of Groundwork Trusts. His career has spanned several UK and continental groups including ten years as Chief Executive of Electrocomponents plc leading its successful expansion into new international markets and three years as Managing Director of Vitec Group plc.



## **Richard Wood (66)**

### **Chief Executive (retiring 30 September 2011)**

Richard Wood is a graduate chartered chemical engineer. He worked for ICI for 23 years and is a former Managing Director of ICI Seeds UK. He then worked for seven years in the pharmaceutical industry, firstly as Chief Executive of Daniels Pharmaceutical Limited until it was acquired by Lloyds Chemists plc and then as Managing Director of a division of Lloyds. He joined Genus as Chief Executive in December 1996.



## **Karim Bitar (46)**

### **Chief Executive (with effect from 30 September 2011)**

Karim Bitar joined the Board in September 2011. He worked for over 15 years with Eli Lilly and Company ('Lilly') and was President of Lilly Europe, Canada and Australia before joining Genus. An ex-McKinsey & Company consultant, who worked across Asia and in Europe, he has also held management roles at Johnson & Johnson and the Dow Chemical Company.



## **John Worby (60)**

### **Group Finance Director**

John Worby joined the Board in September 2004 and was Chairman of the Audit Committee until he became Group Finance Director in February 2009. He is a Non-Executive Director of Cranswick plc and Smiths News plc, and was previously Deputy Chairman and Finance Director of Uniq plc (formerly Unigate plc) having been Finance Director of Wincanton Ltd. He is a member of the Financial Reporting Review Panel.





**Nigel Turner (62)**  
**Senior Non-Executive Director**

Nigel Turner joined the Board in January 2008 and is Chairman of the Remuneration Committee. He was the Chairman of Numis Securities Ltd and Deputy Chairman of Numis Corporation plc from December 2005 to November 2007. Previously he was Vice Chairman of ABN AMRO's Wholesale and Investment Bank in which he had specific responsibility for the Global Corporate Finance and Equity businesses. He joined the Dutch bank in 2000 from Lazard, where he was a partner for 15 years and sat on its Supervisory Board.



**Mike Buzzacott (63)**  
**Non-Executive Director**

Mike Buzzacott is a qualified accountant. He joined the Board in May 2009 and is Chairman of the Audit Committee. He spent 34 years at BP prior to his retirement in 2004, holding a number of international roles including Finance & Control Director Asia Pacific, CFO BP Nutrition and Group Vice President Petrochemicals. He is currently a Non-Executive Director of Scapa Plc. He retired as a Non-Executive Director of Croda plc in August 2011 and was formerly a Non-Executive Director of Rexam plc and Chairman of Biofuels plc.



**Professor Barry Furr (67)**  
**Non-Executive Director**

Professor Furr recently retired as Chief Scientist and Head of Project Evaluation for AstraZeneca plc after 34 years of service. He is a Non-Executive Director of the Medicines and Healthcare Products Regulatory Agency and the American Pharmaceutical company GTx Inc. He was awarded an OBE in 2000 for his services to cancer drug discovery. He joined the Board in December 2006 and chairs the Board's Science Committee. He is the author of more than 160 papers on reproductive endocrinology and antihormones.



**Ian Farrelly (43)**  
**Group Company Secretary & General Counsel**

Ian Farrelly is a solicitor and joined Genus in June 2006 from Microgen plc where he was Group General Counsel. Previously he was Group Solicitor & Company Secretary of Diagonal plc and Solicitor to Hays plc.

# Directors' Report

The Directors present their annual report on the affairs of the Group, together with the Financial Statements and Auditors' Report, for the year ended 30 June 2011.

## Principal Activities

The principal activities of the Group comprise the global application of quantitative genetics and biotechnology to animal breeding in the bovine and porcine sectors.

The principal subsidiary and associated undertakings are listed in note 36 to the financial statements.

## Business Review

A review of the business of the Group during the financial year ended 30 June 2011, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group can be found within the Business Review on pages 4 to 33.

The Business Review also includes details of expected future developments in the business of the Group, an indication of its activities in the field of research and development and details of the key performance indicators used by management, together with details of the Company's approach to corporate responsibility. The Business Review also contains a description of treasury policies and financial instruments used by the Group, which should be read in conjunction with note 25 to the financial statements.

## Dividends

The Directors are pleased to recommend an increase in the final dividend for the year ended 30 June 2011 of 10% to 13.3 pence per share. Subject to shareholder approval at the Company's Annual General Meeting to be held on 10 November 2011, this dividend will be paid on 25 November 2011 to shareholders on the register at the close of business on 11 November 2011.

For the reasons explained in the Chairman's Statement on page 2, the Board has reviewed its dividend policy and has concluded that it will introduce an interim dividend. The Board expects to pay an interim dividend in April 2012 of approximately one third of the anticipated total dividend for the year.

## Directors

The Directors, who served throughout the year and to the date of signing of this report were as follows:

Bob Lawson	– Non-Executive Chairman (appointed 11 November 2010)*
Richard Wood	– Chief Executive**
Karim Bitar	– Director (appointed 1 September 2011)**
John Worby	– Group Finance Director
Nigel Turner	– Senior Non-Executive Director
Mike Buzzacott	– Non-Executive Director
Barry Furr	– Non-Executive Director

\* John Hawkins was Non-Executive Chairman for the period 1 July 2010 to 11 November 2010.

\*\* On 25 May 2011, the Company announced the retirement of Richard Wood with effect from 30 September 2011 and the appointment of Karim Bitar as a Director with effect from 1 September 2011 and as Chief Executive of the Company with effect from 30 September 2011.

In compliance with the UK Corporate Governance Code, Bob Lawson and Karim Bitar, having joined the Board since the Company's last Annual General Meeting, will offer themselves for election at the next Annual General Meeting. In addition, the remaining Directors will offer themselves for annual re-election at the next Annual General Meeting.

The Board considers that all Directors make an effective and valuable contribution to the Board and demonstrate commitment to their respective roles. Biographical details on the Directors of the Company can be found on page 34.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Acts and related legislation. The articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Matters Reserved for the Board, copies of which are available on request, and the Corporate Governance Statement on pages 40 to 44.



## Directors' Interests

The Directors who held office at 30 June 2011 had the following interests in the shares of the Company:

	At 30 June 2011 No.	At 30 June 2010 No.
Bob Lawson	5,150	–
Richard Wood	45,856	60,856
John Worby	10,000	10,000
Nigel Turner	15,000	15,000
Mike Buzzacott	3,000	2,000
Barry Furr	8,000	8,000
<b>Total</b>	<b>87,006</b>	<b>95,856</b>

No changes took place in the interests of Directors between 30 June 2011 and the date of this report.

## Directors' Share Options and Share Awards

Details of Directors' share options and share awards are provided in the Directors' Remuneration Report on page 52.

## Supplier Payment Policy

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Group at 30 June 2011 were equivalent to 25 days' purchases (2010: 29 days), based on the average daily amount invoiced by suppliers during the year.

## Charitable and Political Contributions

During the year, the Group made charitable donations totalling £6,150 to the Red Cross in respect of the Japanese tsunami appeal fund (2010: £nil).

## Capital Structure

Details of the Company's authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 30. The Company has one class of ordinary share. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions either on the size of a holding or on the transfer of shares, which are both governed by the provisions of the Company's Articles of Association and prevailing legislation. Details of the Company's employee share schemes are set out in note 29. In connection with these schemes, the Genus plc Employee Benefit Trust holds shares in the Company from time to time and abstains from voting in respect of any such shares held. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

## Substantial Shareholdings

As at 2 September 2011, the following material interests in the Company's issued ordinary share capital were held: Lansdowne Partners 13.89%, NFU Mutual 8.31%, Baillie Gifford 7.91%, Standard Life Investments 5.35%, Artemis Investment Management 4.13%, Legal & General Investment Management 4.05%, M&G Investment Management 4.03%, Scottish Widows 3.13%, Montanaro Investment Managers 3.02% and BlackRock 3.02%. No other person has notified an interest in the ordinary shares of the Company which is required to be disclosed to the Company.

## Authority to Acquire the Company's Own Shares

At the end of the year, the Directors had authority, under the shareholders' resolutions of 11 November 2010, until the earlier of 18 months after the passing of such resolutions or the conclusion of the Company's next Annual General Meeting, to buy back shares on the open market to a limit of £596,785 in nominal value, representing 10% of the Company's issued share capital as at the date of the resolution at a price between 10 pence (exclusive of expenses) and 105% of the average of the middle market quotation for ordinary shares in the Company for the five business days prior to the date of purchase (exclusive of expenses). No shares were bought back by the Company in the period since 12 November 2010 and the date of this report.

## Corporate Governance

The Company's Corporate Governance Statement is set out on pages 40 to 44 and forms part of this Directors' Report.





# Directors' Report *continued*

## Corporate Social Responsibility

Details of the Company's approach to corporate social responsibility are contained in the Corporate Social Responsibility section of the Business Review on page 32.

## Ordinary and Special Business at the Annual General Meeting

At the Annual General Meeting to be held on 10 November 2011 resolutions 1 to 11 are termed ordinary business, while resolutions 12 to 14 will be special business. The ordinary business includes:

- > approval of the Company's audited Financial Statements and Directors' and Auditors' Reports for the year ended 30 June 2011 (resolution 1)
- > approval of the Directors' Remuneration Report for the year ended 30 June 2011 (resolution 2)
- > declaration of a final dividend of 13.3 pence per ordinary share (resolution 3)
- > election of those Directors submitting themselves for election (resolutions 4 and 5)
- > re-election of Directors in compliance with the UK Corporate Governance Code (resolutions 6 to 9)
- > re-appointment of the Company's auditors and the agreement of their remuneration (resolution 10)
- > grant of authority to the Directors to allot authorised and unissued ordinary shares up to an aggregate nominal amount of £1,605,631 without having to obtain prior approval from shareholders on each occasion (resolution 11)

The special business covers the following matters:

- > partial dis-application of pre-emption rights attaching to the Company's shares (resolution 12)
- > renewal of the Company's authority to buy back the Company's shares (resolution 13)
- > the ability to convene general meetings (other than Annual General Meetings) on 14 days' notice (resolution 14)

The resolutions are set out in the Notice of Annual General Meeting on pages 119 to 122.

The passing of resolution 11, as an ordinary resolution, will permit the Directors for a period expiring at the conclusion of the Company's next Annual General Meeting to allot shares up to a maximum aggregate nominal amount of £1,605,631 being 16,056,315 ordinary shares of 10 pence each representing 27% of the issued ordinary share capital of the Company as at 30 June 2011. The Directors do not have an intention to exercise this authority at the present time. The Company currently holds no shares in treasury.

The passing of resolution 12, a special resolution, will permit the Directors for a period expiring at the conclusion of the Company's next Annual General Meeting to make issues of equity securities for cash by way of rights issue or similar pre-emptive offer. In addition, they may issue equity securities for cash on a non pre-emptive basis, provided the shares so issued are limited to shares with a nominal value of £299,665 being 5% of the equity share capital in issue as at the date of the notice.

The passing of resolution 13, a special resolution, will permit the Directors, until the earlier of 18 months after its passing or the conclusion of the Company's next Annual General Meeting to buy back shares on the open market to a limit of £599,330 in nominal value, representing 10% of the Company's issued share capital as at the date of the notice. The minimum price payable per share will be 10 pence (exclusive of expenses) and the maximum will be limited to 105% of the average of the middle market quotation for ordinary shares in the Company for the five business days prior to the date of purchase (exclusive of expenses).

The passing of resolution 14, a special resolution, will allow the Company to call a general meeting, other than an Annual General Meeting, on not less than 14 clear days' notice subject to certain conditions being satisfied as required by section 307A Companies Act 2006. The annual passing of this resolution will allow the Company to continue to call general meetings on 14 clear days' notice following the implementation of the Companies (Shareholders' Rights) Regulations 2009 that requires all general meetings of the Company to be held on 21 days' notice unless such a resolution is passed.

In the opinion of the Directors, the passing of these resolutions is in the best interests of the shareholders. The Directors unanimously recommend that shareholders vote in favour of all the proposed resolutions as they intend to do in respect of their own beneficial holdings.



### Going Concern

As described more fully in the Directors' Responsibilities Statement on page 59, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Provision of Information to the Company's Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

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

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

### Appointment of Auditors

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Belvedere House  
Basing View  
Basingstoke  
RG21 4HG

By order of the Board



### Ian Farrelly

Group Company Secretary & General Counsel  
5 September 2011

# Corporate Governance Statement

## Statement of Compliance with the Combined Code

Genus is committed to high standards of corporate governance and is accountable to the Company's shareholders for good corporate governance. Throughout the year ended 30 June 2011, the Company has been in compliance with the provisions of the UK Corporate Governance Code (the 'Code'), which is publicly available at <http://www.frc.org.uk>. This Statement, which forms part of the Directors' Report together with the Audit Committee Report and the Directors' Remuneration Report on pages 45 to 58, describe how the Company has applied the principles of corporate governance as set out in the Code.

## The Workings of the Board and its Committees

### The Board

The Board is responsible to shareholders for the proper management of the Group and currently comprises three Executive Directors, the Non-Executive Chairman and three other Non-Executive Directors. Biographies of the Directors appear on page 34. The Board considers that the Directors have a range of experience and sufficient calibre to bring effective judgement to bear on issues of strategy, performance, resourcing and standards of conduct which are vital to the success of the Group. The Chairman and the Non-Executive Directors are considered independent.

The Board met eight times in the period of this report and has a formal schedule of matters reserved for its approval including setting and monitoring Group strategy, reviewing trading performance, ensuring adequate funding, examining major capital expenditure projects and acquisition possibilities, approval of material contracts, formulating policy on key issues and reporting to shareholders. Additional Board meetings can be held if necessary to consider matters that are time critical. The Board delegates authority to the Chief Executive, the Group Finance Director and the Chief Operating Officers and their regional management teams to make day-to-day operating decisions to ensure the proper management of the Group's business and implementation of the Board's approved strategy. In turn, they recommend strategy and plans to the Board, make routine decisions on resources and ensure that robust operational and financial controls are in place. Members of the regional management teams are invited on a regular basis to make presentations to the Board and participate in certain aspects of strategic reviews.

The Chairman, Bob Lawson, has primary responsibility for running the Board. The Chief Executive, Richard Wood, has executive responsibility for achieving operational and financial targets and for executing the Group's strategy. Clear divisions of accountability and responsibility between the Chairman and the Chief Executive have been agreed by the Board and are set out in writing. The Company's Senior Non-Executive Director is Nigel Turner who is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate.

All Directors have access to the advice and services of the Group Company Secretary & General Counsel and to independent professional advice as required. In addition, the Company ensures that the Directors receive appropriate training as and when necessary. To ensure the Board is able to discharge its duties, all Directors receive appropriate and timely information, with Board packs being issued to all Directors well in advance of Board meetings.

The Group Company Secretary & General Counsel ensures that Board procedures are followed and that statutory and regulatory requirements are complied with.

The attendance of Directors at Board and Committee meetings during the year ended 30 June 2011 was as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
<b>Chairman (Non-Executive)</b>				
John Hawkins	3 (3)	1*	2 (2)	2 (2)
Bob Lawson	5 (5)	2*	3 (3)	1 (1)
<b>Executive Directors</b>				
Richard Wood	8 (8)	3*	3*	2 (3)
John Worby	8 (8)	3*	1*	n/a
<b>Non-Executive Directors</b>				
Nigel Turner	8 (8)	3 (3)	5 (5)	3 (3)
Mike Buzzacott	8 (8)	3 (3)	5 (5)	n/a
Barry Furr	8 (8)	3 (3)	3*	n/a

Note: Figures in brackets indicate maximum number of meetings in the period when the individual was a Board member, as a member of the relevant Committee.

\* Attendance by invitation.





### The Audit Committee

The Audit Committee, comprising Mike Buzzacott (Chairman), Nigel Turner and Barry Furr, meets at least three times a year and has formal terms of reference that are set out in writing and agreed by the Board.

At the invitation of the Committee, meetings are attended by the Chairman, the Chief Executive, the Group Finance Director and the Group's internal and external auditors. Minutes of the Committee meetings are circulated to all Directors. The Audit Committee is responsible for reviewing and monitoring a wide range of matters including the financial reporting process, the integrity of the Group's financial statements, the effectiveness of the Group's accounting systems and control environment including risk management, the Group's internal audit function, the effectiveness and independence of the Group's external auditors including the provision of any additional services to the Group, and the Group's reporting to shareholders.

The Audit Committee Report set out on pages 45 to 47 provides details of the role and activities of the Committee and its relationship with the internal and external auditors.

### The Remuneration Committee

The Remuneration Committee, comprising Nigel Turner (Chairman), Bob Lawson, Mike Buzzacott and Barry Furr, meets at least twice a year to review the performance of the Executive Directors and the Chief Operating Officers, and to recommend their remuneration and other benefit packages, including performance related bonus schemes, pension rights and share incentives. In accordance with the Company's Articles of Association, the Board as a whole sets the remuneration of the Non-Executives. The Remuneration Committee has terms of reference which are set out in writing and agreed by the Board. The Report of the Remuneration Committee which includes details of Directors' remuneration and Directors' interests in share awards is shown on pages 48 to 58.

### The Nomination Committee

The Nomination Committee, comprising Bob Lawson (Chairman), Nigel Turner, Mike Buzzacott, Barry Furr and Richard Wood, is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. The Committee has written terms of reference covering the authority delegated to it by the Board. Its duties include reviewing regularly the structure, size and composition (including the skills, knowledge and experience required) of the Board and making recommendations to the Board with regard to any changes, giving full consideration to succession planning for Directors and other senior executives taking into account the challenges and opportunities facing the Company and identifying and nominating, for the approval of the Board, candidates on merit to fill Board vacancies as and when they arise with due regard for the benefits of diversity on the Board, including gender.

In the period, the Committee considered the appointment of a new Chief Executive due to the retirement of Richard Wood effective 30 September 2011. Suitable candidates were identified by the Committee using the services of external consultants to facilitate a search and a recommendation was made to the Board. As a result, Karim Bitar was appointed as a Director of the Company with effect from 1 September 2011 and will become Chief Executive with effect from 30 September 2011.

### Science Committee

The Board's Science Committee is chaired by Professor Barry Furr and has the responsibility of developing and recommending to the Board the Company's research and development strategy that will allow Genus to extend its leading position in livestock breeding by scientific innovation and monitoring progress of individual projects. The Committee met three times in the period.

### Terms of Reference

The terms of reference for the Audit Committee, Remuneration Committee, Nomination Committee and Science Committee are available on the Company's website: [www.genusplc.com](http://www.genusplc.com).

### Board Performance Evaluation

The effectiveness of the Board is vital to the success of the Company. Each year the Board undertakes a formal and rigorous evaluation of its own performance and that of its Committees and individual Directors. The Board, led by the Chairman and supported by the Group Company Secretary & General Counsel, carried out in the period an evaluation of performance using a system based on the use of a questionnaire and one-to-one meetings between the Chairman and the individual Directors. The Board met to discuss the conclusions of the evaluation exercise.



# Corporate Governance Statement *continued*

The performance evaluation exercise focused on matters such as the effectiveness, expertise and dynamics of the Board together with matters such as Board support, strategic and operational risk management and internal controls, succession planning and management of human resources, corporate governance and the effectiveness of the Board's Committees and individual Directors.

The evaluation exercise showed the Board and its Committees to be working well. Certain recommendations for improvement have been agreed and will be implemented in the current financial year. The Board is satisfied that each Director has sufficient skills, knowledge and familiarity with the Company to fulfil their role; continues to contribute effectively and demonstrates commitment to their role.

The Chairman ensures that the Directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board Committees. The Company provides the necessary resources for developing and updating its Directors' knowledge and capabilities.

Under the direction of the Chairman, the Group Company Secretary & General Counsel's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. All Directors receive induction on joining the Board.

As part of their role as members of a unitary Board, Non-Executive Directors constructively challenge and help develop proposals on strategy. Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of Executive Directors and have a prime role in appointing, and where necessary removing, Executive Directors, and in succession planning.

During the period, the Chairman and the Non-Executive Directors met regularly as a group without the Executive Directors present. Under the leadership of the Senior Independent Director, the Non-Executive Directors have also met without the Chairman present to discuss appropriate issues and appraise the Chairman's performance, taking account of the views expressed by the Executive Directors.

## Shareholder Relations

The Company has a continuing dialogue with institutional investors through a planned programme of investor relations. The Chief Executive and the Group Finance Director meet frequently with representatives of institutional shareholders and private client brokers. Feedback from these meetings (including that prepared by independent brokers and advisors) is discussed at Board meetings enabling all Directors, particularly the Non-Executive Directors, to understand the views of major shareholders. The Chairman and Senior Non-Executive Director also maintain contact with major shareholders.

The Board takes the opportunity at the Annual General Meeting to meet and communicate with private and institutional investors and welcomes their involvement. The Business Review on pages 4 to 33 provides a detailed review of the Group's performance and future developments. Bob Lawson, Mike Buzzacott, Nigel Turner and Barry Furr will be available to answer questions as Chairmen of the Board and its Committees at the Annual General Meeting to be held on 10 November 2011.

## Internal Control and Risk Management

The Board has applied the Code by establishing a structured risk management system which identifies, evaluates and prioritises risks and uncertainties affecting the Group and actively reviews control and mitigation activities. The system applies on an ongoing basis to each business unit of the Group worldwide, divisional management boards, the Company's Operating Board and Main Board. The Company's management structure is described further below. The Main Board has continued to enhance the Group's risk management system during the year by each of the regional businesses conducting externally facilitated risk management workshops, the results of which were reviewed by the Company's Operating Board and Main Board. During the period, the Group's internal audit activities were outsourced to Ernst & Young LLP who were tasked to audit specific key business risks identified by the Company's risk management system and agreed by the Board. In addition, specialist third party consultants are tasked from time to time to perform an internal audit of a specific key business risk, for example the Company's compliance with environmental and health and safety requirements and the Company's business continuity plans. Subsequent to the end of the financial year, the Company appointed a Head of Internal Audit to bring in-house the overall management of internal audit and increase the overall resource applied to internal audit activities.



The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with the Code, the Board, with the assistance of the Audit Committee, has reviewed the effectiveness of the Group's system of internal control and the Group's financial, operational and compliance controls and risk management. This assessment considered all significant aspects of internal control arising during the period covered by this report. This included the work programme of the Company's internal audit function, and management reports prepared at the time of the approval of the Company's interim and final reports and financial statements, to consider whether significant risks were identified, evaluated, managed and controlled and whether any significant weaknesses had arisen and the remedial action that had been taken. The management reports were based on the output of detailed risk workshops conducted by the Group centrally and regionally in the year, and responses received to comprehensive questionnaires issued to each of the Group's business units and regional management. In addition, together with the risk events and controls that had been recognised through the Group's other means of day-to-day risk management, namely the divisional management boards, the Operating Board, the Main Board and insurers were considered. Whilst areas are routinely identified for improvement, during the course of its review of the system of internal control the Board has neither identified nor been advised of any failings or weaknesses which it has determined to be material or significant.

The key elements of the Group's internal control and risk management systems are as follows:

### Management of Business Risk

The Board is ultimately responsible for identifying the major business risks faced by the Group. The key risks identified as part of this process and the mitigating actions to control such risks are summarised on page 31. The Board, the Chief Operating Officers and their regional management teams are tasked with the responsibility for the ongoing identification, assessment, management, monitoring and reporting of risks that ensure the significant risks affecting the Company are properly identified and managed. Further enhancements were made in the Company's management of business risk in the year by the constructive use of Group wide externally facilitated risk management workshops.

### Management Structure

Authority to operate the Group's subsidiary companies is delegated to the Chief Operating Officers and their regional management teams within limits set by the Board. The appointment of executives to the most senior positions within the Group requires the approval of the Board. Formal empowerment levels, which set out delegation of authority, authorisation levels and other control procedures are in place. These procedures are supplemented by operating standards set by the Chief Operating Officers and their regional management, as required for the type of business and the geographical location of each subsidiary.

An Operating Board, chaired by the Chief Executive and comprising the Group Finance Director, the Chief Operating Officers, the Group Company Secretary & General Counsel, the Group Financial Controller and other executives by invitation meets on a regular basis to review the Group's performance against its budget, long and short-term strategies, risk management and other key business issues, indicators and activities. In addition, monthly business review meetings are held between each regional business unit and the Chief Executive, the Group Finance Director, the Group Company Secretary & General Counsel and the Group Financial Controller.

### Information and Financial Reporting Systems

The Group's current planning and financial reporting procedures include detailed operational budgets for the year ahead together with the preparation of three year strategic plans, which the Board reviews and approves. Performance is monitored and relevant action taken throughout the year through monthly reporting of financial results, key performance indicators and variances, updated full year forecasts and information on key business risk areas. The main features of internal control and risk management systems in relation to the process for preparing consolidated accounts are segregation of duties, a robust consolidation and reporting software system, various levels of management review and reconciliation processes.

### Quality and Integrity of Personnel

The integrity and competence of personnel is ensured through high recruitment standards enhanced by post-recruitment training courses. High quality personnel are seen as an essential part of the control environment as is the maintenance of high ethical standards.





# Corporate Governance Statement *continued*

## Investment Appraisal

Capital expenditure is regulated by a budgetary process and predetermined authorisation levels. For expenditure above specific levels, detailed written proposals have to be submitted to the Board. Due diligence work is carried out if a business is to be acquired. Major projects and all acquisitions are subject to post-implementation reviews on a timely basis. Areas of under performance against expectations and any significant overspends are investigated and corrective action is taken where required.

## Approval

This statement was approved by the Board and signed on its behalf by:



### Bob Lawson

Chairman

5 September 2011

# Audit Committee Report

Company  
OverviewBusiness  
ReviewCorporate  
GovernanceFinancial  
Statements

## Summary of the Role of the Audit Committee

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Company. The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval. The UK Corporate Governance Code requires that at least one member of the Committee should have recent and relevant financial experience and the Company fulfils this requirement. All members of the Committee are expected to be financially literate.

The principal responsibilities of the Audit Committee are:

- > monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- > reviewing the Group's financial systems, internal financial controls and the Group's internal control and risk management systems;
- > monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- > making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;
- > reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- > reviewing the policy on the engagement of the external auditors to supply non-audit services, taking into account relevant professional and regulatory guidance and monitoring compliance;
- > ensuring the Company maintains suitable arrangements for employees to raise matters of concern in confidence; and
- > reviewing the Company's systems and controls for the prevention of bribery.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

## Meetings

The Audit Committee is required to meet at least three times a year and has an agenda linked to events in the Group's financial calendar in the period. Each Audit Committee member has the right to require reports on matters relevant to its terms of reference in addition to the cyclical items.

The Audit Committee invites the Chief Executive, the Group Finance Director, the Group Financial Controller, the Head of Internal Audit and senior representatives of the external auditors to attend its meetings. The Chairman is not a member of the Committee but does attend its meetings at the invitation of the Committee. Other members of management are invited to present such reports as are required for the Committee to discharge its duties.

## Overview of the Actions Taken by the Audit Committee to Discharge its Duties

In the year ended 30 June 2011 and up to the date of this report the Audit Committee has:

- > reviewed the Financial Statements in the 2011 Annual Report and the Financial Statements in the 2011 Interim Report. As part of this review the Committee received reports from management on significant issues affecting the Financial Statements, and reports from the external auditors on their audit of the Annual Report and Financial Statements and review of the Interim Report;
- > considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- > reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statements on this matter;
- > reviewed and agreed the scope of the audit work to be undertaken by the external auditors;
- > met with the external auditors, without management being present;
- > agreed the fees to be paid to the external auditors for their audit of the 2011 Financial Statements and review of the Interim Report;
- > reviewed the independence and performance of the external auditors;
- > agreed a work programme for the Company's internal audit function;
- > received reports from the internal audit function on the work undertaken by internal audit and management responses to proposals made in the audit reports issued by the function during the year;
- > reviewed the performance of the internal audit function;



# Audit Committee Report *continued*

- > met with the internal auditors, without management being present;
- > reviewed its own effectiveness and terms of reference;
- > reviewed the Group's tax strategy and the Group's pension arrangements;
- > reviewed the Company's policy on the engagement of the external auditors to supply non-audit services; and
- > reviewed the Group's whistleblowing policy and bribery prevention procedures.

## External Auditors

Under its terms of reference, the Audit Committee is responsible for monitoring the independence, objectivity and performance of the external auditors, and for making a recommendation to the Board regarding the appointment of external auditors on an annual basis.

The Group's external auditors, Deloitte LLP, were first appointed as external auditor of the Company for the period ended 30 June 2006 following a formal tender process.

The Group's policy on non-audit services sets out services which the external auditors will and will not be allowed to provide to the Group, addressing both the nature of services and monetary thresholds requiring approval by the Group Finance Director and the Audit Committee Chairman. Deloitte LLP ('Deloitte') are retained for tax advisory and tax compliance services. Note 8 to the Financial Statements sets out the fees paid to Deloitte during the year for audit services, audit related services and non-audit services. The Audit Committee is satisfied that the use of Deloitte for such services does not impair their independence as the Group's external auditors. The Company's Non-Audit Services by Auditors Policy can be found on the Company's website [www.genusplc.com](http://www.genusplc.com).

To assess the effectiveness of the external auditors, the Audit Committee has reviewed a report from management on the effectiveness of the external audit work based on questionnaires completed by key financial staff and members of the Audit Committee covering matters such as:

- > the external auditors' fulfilment of the agreed audit plan;
- > the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements;
- > the content of the external auditors' reports; and
- > cost effectiveness.

As a consequence of its satisfaction with the results of the activities outlined above, the Audit Committee has recommended to the Board that the external auditors be reappointed for a further year. A new senior statutory audit partner has been selected by the Company due to the previous senior audit partner having held office for five years.

## Internal Audit Function

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the internal audit function in the context of the Group's overall risk management system. During the period the Company's internal audit function had been outsourced to Ernst & Young LLP. Subsequent to the end of the financial year, the Company appointed a Head of Internal Audit to bring in-house the overall management of internal audit and increase the overall resource applied to internal audit activities. In fulfilling its responsibilities, the Committee has reviewed the following in the period:

- > the scope, terms of reference, resource and activities of the internal audit function within the Group;
- > internal audit's plans and its achievement of the planned activity;
- > the internal auditors' reports on the results of individual audits and other significant findings, the adequacy of management's response and the timeliness of resolution of the matters raised in such reports;
- > the level and nature of non-audit activity performed by internal audit; and
- > the performance of the internal auditors.

The Group's Whistleblowing Policy contains arrangements for the Group Company Secretary & General Counsel to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee.





### Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference. It has also ensured the independence and objectivity of the external auditors, and has assisted the Board in its review of the effectiveness of the Group's system of internal control and risk management.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

### Approval

This report was approved by the Audit Committee and signed on its behalf by:



**Mike Buzzacott**

Chairman of the Audit Committee

5 September 2011

# Directors' Remuneration Report

## Letter to Shareholders from the Chairman of the Remuneration Committee

5 September 2011

Dear Shareholder

As highlighted in the Business Review, the year ended 30 June 2011 has been one in which Genus has continued to make substantial progress.

The increase in profitability achieved during the year, and progress delivered in further establishing operational capabilities in a number of our key long-term strategic markets, demonstrates the strength of our business model and, in particular, the effective leadership skills of our management team.

In light of executive management's achievements during the year, the Remuneration Committee considers the remuneration paid to our executive management team to reflect fairly their performance during the year. The annual bonus paid out towards the maximum level reflecting an increase in profit before tax of 19%, reduction in net debt of 15% and the substantial progress achieved in relation to delivering the Group's strategic objectives that are described in the Business Review section of this Annual Report. The 2008 Performance Share Plan award vested at 91% of the total award as a result of annualised growth in adjusted EPS of 12% over the three year performance period, that was towards the maximum vesting criteria attached to the award. Given economic circumstances over the past three years, this was considered to be an exceptional result delivered by the executive management team.

The Remuneration Report that follows sets out the remuneration policy that will operate during the current year and includes details of the remuneration package of our new Chief Executive, Karim Bitar. The Committee believes that the policy achieves its overriding objective of enabling the recruitment, retention and motivation of an executive management team capable of taking the business forward through its next phase of development. In addition, given that a substantial proportion of the total package is linked to appropriately challenging performance conditions, includes clawback provisions for annual incentive pay in the event of misstatement of Group results and has a substantial weighting towards long-term performance, the Committee is comfortable that the current arrangements do not inadvertently encourage undue risk taking and that its policy motivates behaviours that are in the long-term interests of the Company and its shareholders.

As a result, the Committee looks forward to your support of our remuneration policy at the 2011 AGM.

Yours sincerely



**Nigel Turner**

Senior Independent Non-Executive Director and Chairman of the Remuneration Committee

## Introduction

This report has been prepared in accordance with the provisions of the Companies Act 2006 ('Companies Act') and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and also meets the relevant requirements of the Listing Rules of the Financial Services Authority. The report also describes how the Board has applied the principles relating to Directors' remuneration in the UK Corporate Governance Code. In accordance with the regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company to be held on 10 November 2011.

The Companies Act requires the auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

## Unaudited Information Remuneration Committee

The Company has established a Remuneration Committee (the 'Committee') which is constituted in accordance with the recommendations of the UK Corporate Governance Code. The Committee makes recommendations to the Board, within agreed terms of reference, on an overall remuneration package for the Executive Directors, the Chief Operating Officers of the Company and the Group Company Secretary & General Counsel. The full terms of reference of the Committee are available on the Company's website at [www.genusplc.com](http://www.genusplc.com).

The Committee comprises independent Non-Executive Directors Nigel Turner (Chairman), Mike Buzzacott and Barry Furr, and also the Company's Non-Executive Chairman, Bob Lawson, who was considered by the Board to be independent at the time of his appointment to the Board. John Hawkins, the former Company Chairman, also served on the Committee during the year.

None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board and no Director plays a part in any discussion about his own remuneration.

During the year to 30 June 2011 the Committee met five times and the following matters were covered:

- > review of the market competitiveness of the remuneration policy and the remuneration arrangements for the Executive Directors and the Chief Operating Officers of the Company;
- > review of the salary levels for the Executive Directors and the Chief Operating Officers of the Company;
- > agreement of the terms of the Executive Annual Bonus Plan and of the individual bonuses payable in the light of the Group's and individual's performance;
- > agreement of the individual long-term share incentive awards under the Company's 2004 Performance Share Plan and 2004 Executive Share Option Plan;
- > review of the performance measures and targets to apply to these awards;
- > approval of the vesting levels of long-term share incentive awards;
- > approval of the Directors' Remuneration Report for the financial year ending 30 June 2010;
- > review of the current investor guidelines on executive remuneration; and
- > remuneration arrangements for the new Chief Executive.

In determining the Directors' remuneration for the year, the Committee consulted the Chief Executive about its proposals. The Committee also appointed Aon Hewitt Limited (operating through the brand Hewitt New Bridge Street) to provide benchmarking advice on the remuneration packages applicable to the Non-Executive Directors, Executive Directors and the Chief Operating Officers of the Company. Aon Hewitt Limited did not provide other services to the Company during the year.

## Remuneration Policy

The Company's executive and senior management remuneration packages are designed to attract, motivate and retain individuals of the high calibre required to maintain the Group's position as a market leader and to reward them for enhancing value to shareholders.





# Directors' Remuneration Report *continued*

The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration packages are undertaken by the Committee. The main principles are to:

- > ensure that salaries are set at a market competitive level given the calibre and experience of each individual and after taking due account of salary levels in appropriate external comparators;
- > support a high performance culture and align long-term rewards with shareholders' interests;
- > maintain an appropriate balance of fixed and performance related pay that rewards for the delivery of the Company's short, medium and longer-term objectives;
- > to have short, medium and long-term performance targets that are specific, measurable and fully aligned with the Company's business objectives; and
- > ensure that the overall package reflects market practice and takes into account levels of remuneration elsewhere in the Group.

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors and senior management should be based on corporate and individual performance related targets that are challenging and support the Company's strategy and objectives. The policy is intended to create a strong link between business performance and reward and to generate value to shareholders, employees and the Company.

Remuneration policy is reviewed regularly and the Committee is satisfied that the current policy does not encourage undue risk taking (e.g. due to the range of performance metrics used in the annual bonus plan, the operation of clawback provisions and the proportion of total remuneration that is linked to long-term performance).

In setting the Executive Directors' remuneration the Committee took into account the pay and employment conditions applicable across the Group in the reported period and no increases were made in the period to 30 June 2011 to Directors' base salary compared against the prior year.

The following table provides a summary of the key elements of the Company's remuneration package:

Element	Purpose	Operation
Salary	To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Company.	Reviewed annually. Benchmarked against relevant market comparators as appropriate reflecting the size and nature of the role, individual performance, increases awarded to other employees, Company performance and broader economic conditions.
Annual bonus	Incentivises achievement of annual objectives which support the short-term performance goals of the Company.	Maximum bonus potential is normally set at 100% of basic salary.  Bonus awards are subject to achievement against challenging profit, net debt reduction and personal objectives. During the year under review, exceptionally, the maximum bonus was increased to 150% of basic salary with the additional bonus subject to challenging strategic targets and deferral of any additional bonus earned for a period of one year. Payments under the annual bonus plan are subject to a clawback in the event of a material misstatement of the Company's financial results.
Long-term share incentives	Performance share plan incentivises executives to achieve superior returns to shareholders over a three year period, to retain key individuals and align interests with shareholders.	Annual awards are normally made under the plan equal to 100% of basic salary to the Executive Directors and other senior management and are based on the achievement of EPS targets over a three year performance period.

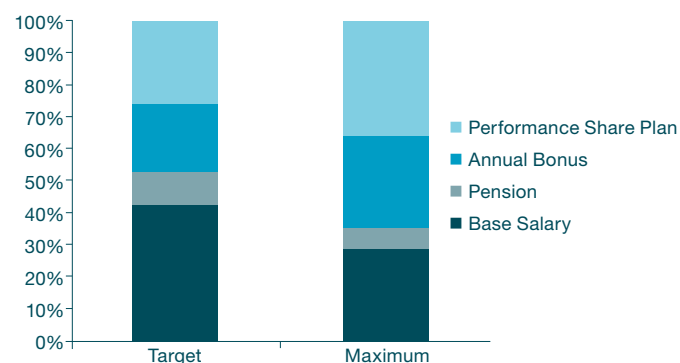
### Balance Between Fixed and Variable Pay

Based on the remuneration structure that will apply in the Company's 2011/12 financial year, for achievement of target levels of performance, more than 40% of total remuneration will be delivered from business performance related elements of our remuneration structure. Should the maximum performance targets be achieved, this proportion increases to over 60%.

The variable elements of remuneration are linked to the key financial and strategic measures of performance that are used internally to monitor the performance of the business and, in turn, are considered to underpin value creation for shareholders.

The following charts show the total remuneration packages for the new Chief Executive (Karim Bitar) and the Group Finance Director split between fixed pay and pay at risk at both 'target' and 'maximum' levels of performance. For the new Chief Executive, the charts consider the Performance Share Plan award described on page 55 but exclude other transitional arrangements that were adopted in relation to facilitating his recruitment which are described on pages 54 and 55.

Fixed and Variable Pay: New Chief Executive (Karim Bitar)  
at Target and Maximum Performance Levels

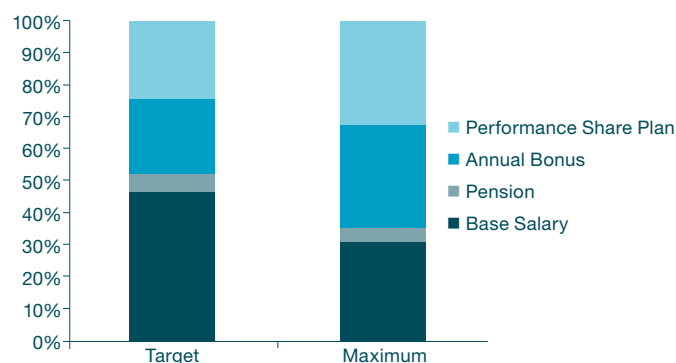


**Assumptions:**

**Target:** annual bonus award of 50% of salary plus 50% of Performance Share Plan award vests.

**Maximum:** maximum bonus award plus full vesting under the performance Share Plan award taken at its face value as at the date of grant. Benefits are excluded.

Fixed and Variable Pay: Group Finance Director (John Worby)  
at Target and Maximum Performance Levels



**Assumptions:**

**Target:** annual bonus award of 50% of salary plus 50% of Performance Share Plan award vests.

**Maximum:** maximum bonus award plus full vesting under the performance Share Plan award taken at its face value as at the date of grant. Benefits are excluded.

### Base Salary

The Executive Directors' basic salary is reviewed by the Committee prior to the beginning of each financial year, taking into account individual and corporate performance, an assessment of comparator companies, wider economic conditions and levels of increases applicable to other employees in the Company.

The current salary levels of the Executive Directors (with effect from 1 July 2011) are as follows:

- > Richard Wood: £450,000 (no increase)
- > John Worby: £300,000 (increased from £275,000)

In setting a revised salary level for John Worby, the Committee was mindful of the need to retain a highly regarded Group Finance Director at an important time in the development of the Company that has also included a number of changes in the Group's leadership team. With regard to the specific level of salary that was set, this took due account of salary levels in international companies of comparable size, and complexity, and more particularly, the experience, calibre and performance in post of the individual.

With regard to the recent appointment of Karim Bitar, who will replace Richard Wood as Chief Executive from 30 September 2011, his salary has been set at £500,000 with this level of salary considered appropriate to recruit a high calibre candidate with the relevant skills and experience considered necessary to lead Genus through its next phase of development.

# Directors' Remuneration Report *continued*

## Annual Bonus

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. The maximum bonus and the proportion paid for on-target performance are considered in the light of market practice for companies of a similar size and industry sector. Bonus potential is normally set at a maximum of 100% of basic salary dependent on stretching targets relating to profit, net debt reduction and challenging personal objectives. A maximum of 60% of the bonus opportunity is normally based on corporate performance as measured by profit before tax, 20% of the bonus opportunity is normally based on the achievement of net debt targets and the remaining 20% of the bonus opportunity is normally based on the achievement of personal objectives. 50% of salary is normally payable for on-target performance.

For the year ended 30 June 2011 the Committee determined that 86% of the profit before tax performance measure included in the annual bonus plan had been achieved (following growth of 19% in profit before tax on the prior year's result which was towards the top end of the range of targets set) and that 100% of the net debt targets had been achieved (based on a 15% reduction in net debt which exceeded the maximum target set) and 100% of the short-term personal objectives had been met. This resulted in bonuses becoming payable at 91% of salary.

As disclosed in last year's Directors' Remuneration Report, exceptionally, an additional bonus opportunity of up to 50% of salary was available in respect of the year under review. This additional bonus opportunity was considered appropriate as a result of a number of key strategic objectives being identified by the Board as crucial to the long-term development of the Company. Accordingly, the Committee set an additional bonus opportunity for the year under review to provide a clear separate incentive to motivate the Executive Directors to make substantial progress in respect of these objectives.

With regard to the Chief Executive, his strategic objectives included assisting the Board in relation to succession planning (with regard to his own position and in key roles in the Company's emerging markets); the strategic development of the Company (with the specific targets relating to the achievements described in the Business Review section of this Annual Report); people development targets and the growth of shareholder value. The Group Finance Director's strategic objectives included the strategic development of the Company (as noted for the Chief Executive above, see the Business Review section of this Annual Report); targeted financial and management reporting system improvements; people development targets and more effective investor relations.

The Committee determined that the Executive Directors each achieved their specific targets in full. Payments under this exceptional criteria shall be deferred for a period of one year save in the case of Richard Wood due to his retirement on 30 September 2011.

With regard to the bonus arrangements operating during the current year, the maximum annual bonus available under the plan will revert to 100% of salary for each Executive Director and the normal bonus structure described above will apply in respect of Karim Bitar and John Worby.

Given Richard Wood is to retire on 30 September 2011, a bonus structure will apply that reflects the period of the current financial year during which he will serve as Chief Executive, with a maximum bonus payable of £100,000.

## Share Awards & Share Options

Long-term share awards are granted under the Genus plc 2004 Performance Share Plan (the 'Plan'). Under the Plan, incentives can take the form of conditional share awards or nil cost options with vesting determined based on achievement against challenging growth in adjusted earnings per share performance normally tested over a three year period. With regard to the awards granted to Executive Directors since 15 October 2008, including those granted during the year under review, the performance targets that must be satisfied for vesting are shown in the table below:

Per annum growth in adjusted EPS*	% of award vesting**	Per annum growth in adjusted EPS*	% of award vesting**
<RPI +4%	Nil	RPI +7%	70%
RPI +4%	40%	RPI +8%	80%
RPI +5%	50%	RPI +9%	90%
RPI +6%	60%	RPI +10%	100%

\* Growth in adjusted EPS over the three year performance period will be computed based on a simple average annual growth rate.

\*\* A linear scale will be applied when performance falls between the bands.





For grants of share awards made on and prior to 15 October 2008 the following performance conditions apply:

Per annum growth in adjusted EPS*	% of award vesting**	Per annum growth in adjusted EPS*	% of award vesting**
<RPI +3%	Nil	RPI +6%	70%
RPI +3%	40%	RPI +7%	80%
RPI +4%	50%	RPI +8%	90%
RPI +5%	60%	RPI +9%	100%

\* Growth in adjusted EPS over the three year performance period will be computed based on a simple average annual growth rate.

\*\* A linear scale will be applied when performance falls between the bands.

Prior to the vesting of any grant, the Remuneration Committee reviews the basis of calculation of growth in adjusted EPS to satisfy itself that the performance conditions have been met. The Committee uses audited adjusted EPS as the basis for determining any vesting.

With regard to the awards that are anticipated being granted in the current financial year, the Group Finance Director will receive an award over shares with a market value of 100% of salary with the new Chief Executive, reflecting what was agreed at the time of his appointment, receiving an award over shares with a market value of 125% of salary (see page 54).

The Committee has determined that the performance targets applying to the 2011 awards to the new Chief Executive and the Group Finance Director will be toughened relative to those applying to awards granted in prior years. The level of performance required for full vesting is being increased at the same time as reducing the proportion of awards vesting at the threshold performance level which will fall from 40% of an award to 30% of an award. The full range of revised targets are shown in the table below:

Per annum growth in adjusted EPS *	% of award vesting **	Per annum growth in adjusted EPS *	% of award vesting **
<RPI +4%	Nil	RPI +7%	60%
RPI +4%	30%	RPI +8%	70%
RPI +5%	40%	RPI +9%	80%
RPI +6%	50%	RPI +10%	90%
		RPI +11%	100%

\* Growth in adjusted EPS over the three year performance period will be computed based on a simple average annual growth rate.

\*\* A linear scale will be applied when performance falls between the bands.

Details of awards made to Directors are shown in the table of Directors' interests on page 57 and details of the performance criteria for the Company's share award and share option schemes are also included in note 29 to the Financial Statements.

### Executive Share Option Plan

Under the Company's 2004 Executive Share Option Plan, grants are made to incentivise middle management (Executive Directors and senior management do not participate in this plan) and the vesting of options is also conditional on achievement of growth in adjusted earnings per share exceeding RPI +5% over a three year period. It is the Company's policy to phase the granting of share options rather than to award them in a single large block to any individual.

### Benefits-in-Kind

The Executive Directors receive certain benefits-in-kind, principally a car or car allowance, life assurance and private medical insurance. In lieu of Company pension contributions, the Company has agreed to pay Richard Wood and John Worby a taxable pension allowance of 15% and 12% of basic salary per annum respectively.

Reflecting what was agreed in facilitating his appointment, Karim Bitar, will receive a taxable pension allowance of 25% of salary, a car allowance, life assurance and private medical insurance.



# Directors' Remuneration Report *continued*

## Directors' Contracts

Details of the Executive Directors' service contracts and the terms of appointment of the Non-Executive Directors are set out below.

Director	Contract Date	Expiry Date	Notice Period (Months)
<b>Executives</b>			
Richard Wood	8 November 1996	30 September 2011	12
Karim Bitar	24 May 2011	n/a	12 (from Company) 6 (from Executive)
John Worby	25 February 2009	n/a	12 (from Company) 6 (from Executive)
<b>Non-Executives</b>			
Bob Lawson	11 November 2010	10 November 2013	1
Nigel Turner	16 January 2011	15 January 2014	1
Mike Buzzacott	7 May 2009	6 May 2012	1
Barry Furr	1 December 2006	30 November 2012	1

Note: John Hawkins was Non-Executive Chairman for the period 1 July 2010 to 11 November 2010.

It is the Company's policy for the notice periods of Executive Directors normally to be of twelve months or less. The Executive Directors' contracts do not include liquidated damages clauses that provide for a predetermined level of compensation in the event of termination. In the event of termination, the Committee's policy is that payments on termination should reflect the circumstances that prevail at that time, also taking account of Directors' duty to mitigate. There are no enhanced provisions in the event of a change of control. Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting to be held on 10 November 2011.

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board having regard to the time devoted to the Company's affairs. The Non-Executive Directors do not participate in any of the Company's incentive schemes or pension schemes. Their appointment is for a fixed term of three years and is subject to one month's notice of termination being given by either the Company or the Non-Executive Director and to annual re-election at the Company's Annual General Meeting in accordance with the UK Corporate Governance Code.

The current total fees payable to the Non-Executive Directors are as follows:

- > Chairman: £140,000
- > Other Non-Executive Directors: £47,000

The fee payable to the Chairman was benchmarked against companies of similar size and complexity with the assistance of Hewitt New Bridge Street and is considered appropriate by the Committee to recruit a high calibre candidate with the relevant skills and experience considered necessary to chair Genus through its next phase of development. The fees payable to the other Non-Executive Directors have also been reviewed taking into account practice in companies of a comparable size, internationality and complexity and, more particularly, the anticipated time commitment of the roles as the Company moves forward. The revised total fees payable have been set at £47,000 from 1 July 2011 (inclusive of the fees payable for chairmanship of the relevant Board Committees described in the Corporate Governance Report for each Non-Executive Director).

## Recruitment of Karim Bitar

In order to facilitate the recruitment of Karim Bitar, who was appointed as a Director of the Company from 1 September 2011 and shall become Chief Executive with effect from 30 September 2011, the Committee agreed to compensate him for the forfeiture of outstanding incentive awards with his former employer on joining Genus.

In determining the level and form of compensation, the Committee took into account the extent to which the performance conditions applying to the relevant incentives had been met or were likely to be met mindful of the Committee's duty not to pay more than was necessary to secure his recruitment.



Accordingly, the award granted to Karim Bitar in 2011 by his former employer will be replaced with the Performance Share Plan award described below. This award, being performance-related, is subject to consistent terms with the award to be granted to the Group Finance Director in relation to the current financial year and is the sole performance-related share award that Karim Bitar will receive in 2011. The quantum of the award was set broadly to reflect the expected value of the award forfeited.

The other outstanding awards granted to Karim Bitar in 2009 and 2010 by his former employer were assessed by the Committee to determine the extent to which there was significant value in the awards (each of which was subject to a two year performance period running from the financial year immediately prior to the year in which the award was granted and a further one year holding period). As a result of this assessment, the Committee considered it appropriate to replace the outstanding awards with a restricted stock award to compensate for the value being forfeited on leaving employment. The restricted stock award will be granted with a vesting profile to mirror that of the awards granted by his previous employer. The award is subject to continued employment to the relevant vesting dates otherwise the relevant portion of the award will lapse.

The final element of compensation provided was in respect of his anticipated loss of annual bonus entitlement for the part year served prior to leaving his former employer. Again this payment was based on the Committee's assessment of the likely value forgone to the date of leaving and will be the subject of a cash payment in the Company's September payroll.

In summary, the compensation agreed with Karim Bitar to facilitate his recruitment was as follows:

1. An award of shares under the Performance Share Plan over shares worth 125% of salary (subject to the rules of the Plan) and the performance targets set out on page 53 of the Directors' Remuneration Report;
2. A restricted stock award (granted using provision 9.4.2 (2) of the Listing Rules) over 77,259 shares. Of this award, 36,685 shares vest on 31 January 2012 with 40,574 vesting on 31 January 2013 with each part of the award subject to continued employment; and
3. A cash payment to be made in September 2011 of £163,000 subject to being employed at the payment date.

In relation to the above, it was also agreed that Karim Bitar would retain at least half of the after tax number of shares comprising his restricted share award following vesting until such time as a shareholding in the Company of 100% of salary is achieved.

As required under the relevant legislation, the other key features of the restricted stock award described above are as follows:

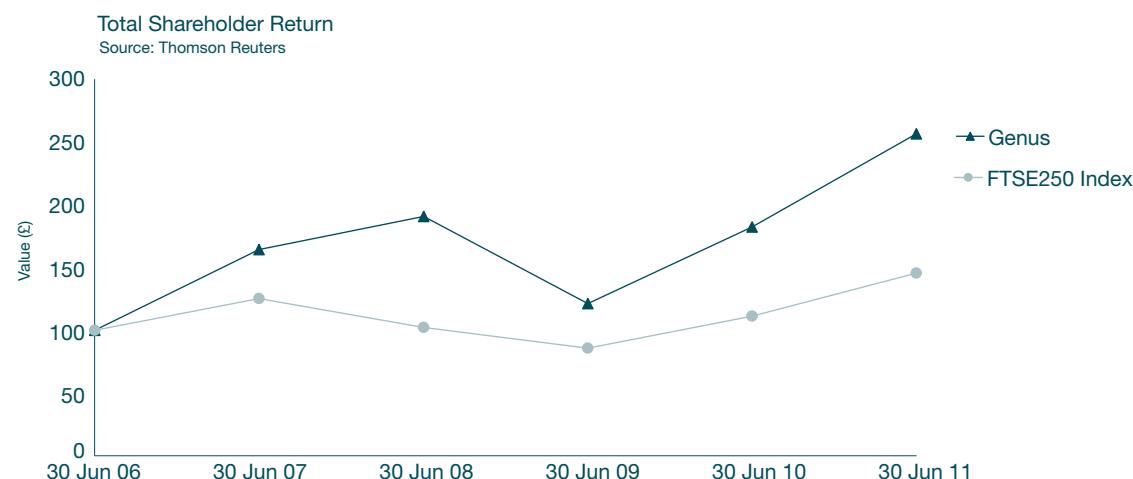
- > The award will be granted at the time of the award of shares under the Performance Share Plan;
- > The award is non-pensionable and non-transferable (other than on death);
- > If Karim Bitar ceases employment with the Group before any part of the award vests the relevant part of the award will lapse, unless he leaves in certain good leaver situations where the award will vest on cessation;
- > The award will vest in full on a change of control of the Company. The award may also vest early in the event of a demerger, special dividend or other similar event which, in the Committee's opinion, materially affects the price of the Company's shares. The award will not, unless the Committee decides otherwise, vest on an internal reorganisation but will instead be exchanged for an equivalent award over shares in the new holding company;
- > In addition to the shares vesting under the award, the award will provide for a payment (in cash and/or shares) of an amount equivalent to the dividends that would have been paid on those shares over the vesting period;
- > The award will not confer any shareholder rights on Karim Bitar unless and until it vests;
- > In the event of any variation of the Company's share capital, a demerger, a special dividend or other similar event which materially affects the price of the Company's shares, the award may be adjusted in such manner as the Committee sees fit; and
- > The terms of the award may be amended in such manner as the Committee may determine, provided that amendments to Karim Bitar's benefit may only be made with the prior consent of shareholders.



# Directors' Remuneration Report *continued*

## Performance Graph

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



This graph shows the value, by 30 June 2011 of £100 invested in Genus plc on 30 June 2006 compared with the value of £100 invested in the FTSE 250 Index on the same date. The other points plotted are the values at intervening financial year ends.

## Audited Information

### Aggregate Directors' Remuneration

The total amounts for Directors' remuneration were as follows:

	2011 £000	2010 £000
Emoluments	997	970
Bonus schemes	1,025	472
	2,022	1,442
Gains on exercise of share options and awards	1,191	742
<b>Total</b>	<b>3,213</b>	<b>2,184</b>

### Directors' Emoluments

	Salary and fees £000	Bonus* £000	Benefits £000	Total 2011 £000	Total 2010 £000
<b>Executive Directors</b>					
Richard Wood	450	636	74	1,160	812
John Worby	275	389	46	710	505
<b>Non-Executive Directors</b>					
John Hawkins**	63	—	—	63	125
Bob Lawson***	89	—	—	89	—
Nigel Turner	40	—	—	40	40
Mike Buzzacott	40	—	—	40	40
Barry Furr	40	—	—	40	40
<b>Total</b>	997	1,025	120	2,142	1,562

\* As set out in the policy section above, performance against the profit before tax, net debt and personal targets resulted in an annual bonus of 91% of salary becoming payable to Executive Directors for the year ended 30 June 2011. In addition, the challenging strategic targets were met in full resulting in a further 50% of salary becoming payable. The amounts payable in relation to the strategic targets will be deferred: (i) for one year for John Worby (with the expected payment being made in September 2012); and (ii) to the date of retirement for Richard Wood (30 September 2011).

\*\* John Hawkins was Non-Executive Chairman for the period 1 July 2010 to 11 November 2010.

\*\*\* Bob Lawson was appointed as Non-Executive Chairman with effect from 11 November 2010.

No additional compensation is payable in respect for Richard Wood's retirement from the Board.



## Outside Appointments

The Company recognises that Executive Directors may be invited to become Non-Executive Directors of other companies and that this can help broaden the skills and experience of a Director. Upon appointment as the Group Finance Director of the Company in February 2009, John Worby was permitted to retain his existing non-executive directorships of Cranswick plc and Smiths News plc and John Worby has been permitted to retain the associated remuneration of £83,867 in the period.

## Directors' Share Awards and Share Options

The Directors at 30 June 2011 had the following beneficial interests in share awards and share options:

### Richard Wood

Grant	Vesting Period	Market Price at Grant Date	At 30 June 2011 No.	At 30 June 2010 No.
(1)	21 September 2007 to 20 September 2010	582p	–	154,639
(2)	15 October 2008 to 14 October 2011	651.5p	<b>69,071</b>	69,071
(3)	15 September 2009 to 14 September 2012	654.5p	<b>68,755</b>	68,755
(4)	22 September 2010 to 21 September 2013	780.84p	<b>57,631</b>	–
<b>Total</b>			<b>195,457</b>	292,465

The targets applying to the above awards are set out on page 52. Following testing of the performance targets applying to (1) and (2) above (based on the Company's audited results) the Committee determined the proportion of each award eligible to vest at the award's normal vesting date.

With regard to (1) above, the Remuneration Committee declared a vesting percentage of 100% in relation to the Company's earnings per share performance leading to the vesting of 154,639 ordinary shares in the Company in September 2010. Actual adjusted EPS growth over the performance period was 11.3% above RPI on an annualised basis which exceeded the maximum annual performance level required under the condition and thus triggered full vesting. All of these shares were sold at a price of 770 pence per share in September 2010 by Richard Wood.

Under (2) above the Remuneration Committee tested the condition as in (1) above and declared a vesting percentage of 91%. Actual adjusted EPS growth over the performance period was 9.1% above RPI on an annualised basis and thus fell between the minimum and maximum performance levels and resulted in partial vesting.

Due to the retirement of Richard Wood on 30 September 2011, in line with the rules of the Plan, it is currently anticipated that he will be treated as a good leaver in respect of his share awards under (2), (3) and (4) above and these awards will vest early. Such early vesting is subject to a pro rata reduction to reflect Richard Wood's length of service compared with the performance period of the relevant share awards and is subject to the satisfaction of the performance conditions attaching to the relevant share awards as stated in the Plan. Accordingly under (3) a vesting percentage of 77% shall apply as to two-thirds of the grant and that under (4) a vesting percentage of 100% shall apply as to one-third of the grant. This level of vesting relates to annual adjusted EPS performance over the relevant performance period of 7.7% and 17.8% which resulted in partial and full vesting respectively.

### John Worby

Grant	Vesting Period	Share Price at Grant	At 30 June 2011 No.	At 30 June 2010 No.
(1)	3 March 2009 to 2 March 2012	635.67p	<b>86,523</b>	86,523
(2)	15 September 2009 to 14 September 2012	654.5p	<b>42,017</b>	42,017
(3)	10 September 2010 to 9 September 2013	729.83p	<b>37,680</b>	–
<b>Total</b>			<b>166,220</b>	128,540

# Directors' Remuneration Report *continued*

## Employee Benefit Trust

The Company has established an Employee Benefit Trust to be the custodian of any shares purchased in respect of the 2004 Performance Share Plan on behalf of the Executive Directors and certain senior management. As at 30 June 2011, 122,134 ordinary shares in the Company were held by the trust.

## Company Share Price

The market price of the Company's shares on 30 June 2011 was 1,030 pence and the low and high share prices during the financial year were 705 pence and 1,046 pence respectively.

## Approval

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



## Nigel Turner

Chairman of the Remuneration Committee  
5 September 2011

# Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare such Financial Statements for each financial year. Under that law the Directors are required to prepare Group Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- > select and apply accounting policies properly;
- > present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- > provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- > make an assessment of the Company's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Going Concern

The Business Review on pages 3 to 33 sets out the Group's position and prospects, in particular:

- > The Group's business activities, their performance and position are set out on pages 20 to 25.
- > The financial position of the Group including cash flows, liquidity position, borrowing facilities and treasury risk management policies are set out on pages 28 to 30.
- > The risk factors facing the Group and mitigating actions in place are described on page 30.

In addition, note 25 to the Financial Statements includes details of the Group's bank facilities, borrowings under such facilities and details of the Group's financial instruments.

After reviewing the available information including the Group's business plans and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

## Directors' Responsibility Statement

The Directors confirm to the best of their knowledge:

1. the Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board:



**Richard Wood**  
Chief Executive  
5 September 2011



**John Worby**  
Group Finance Director  
5 September 2011



# Independent Auditors' Report – Group Financial Statements

## Independent Auditors' Report to the members of Genus plc

We have audited the Group Financial Statements of Genus plc for the year ended 30 June 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Balance Sheet, the Group Statement of Cash Flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group 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 Group 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 ('APBs') Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the Group Financial Statements:

- > give a true and fair view of the state of the Group's affairs as at 30 June 2011 and of its profit for the year then ended;
- > have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- > have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

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

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- > 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.

Under the Listing Rules we are required to review:

- > the Directors' statement contained within the Directors' Report in relation to going concern;
- > the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- > certain elements of the report to shareholders by Board on Directors' remuneration.

## Other matter

We have reported separately on the Parent Company Financial Statements of Genus plc for the year ended 30 June 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.



**Edward Hanson (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditors  
London, United Kingdom  
5 September 2011



# Group Income Statement

For the year ended 30 June 2011

	Note	2011 £m	2010 £m
<b>Revenue from continuing operations</b>	5,6	<b>309.9</b>	285.3
<b>Adjusted operating profit from continuing operations</b>		<b>42.2</b>	39.9
Net IAS 41 valuation movement on biological assets	15	<b>9.8</b>	11.0
Amortisation of acquired intangible assets	14	<b>(5.2)</b>	(5.1)
Share-based payment expense	29	<b>(3.2)</b>	(1.6)
Exceptional items	7	<b>43.6</b> <b>1.2</b>	44.2 2.8
<b>Operating profit from continuing operations</b>	8	<b>44.8</b>	47.0
Share of post-tax profit of joint ventures and associates	17	<b>2.3</b>	3.1
Net finance costs	10	<b>(6.3)</b>	(9.3)
<b>Profit before tax from continuing operations</b>		<b>40.8</b>	40.8
Taxation	11	<b>(11.6)</b>	(13.3)
<b>Profit for the year from continuing operations</b>		<b>29.2</b>	27.5
<b>Earnings per share from continuing operations</b>	13		
Basic earnings per share		<b>49.0p</b>	46.3p
Diluted earnings per share		<b>48.2p</b>	45.7p
<b>Non statutory measure of profit</b>			
Adjusted operating profit from continuing operations		<b>42.2</b>	39.9
Pre-tax share of profits from joint ventures and associates excluding net IAS 41 valuation movement	17	<b>3.1</b>	2.3
<b>Adjusted operating profit including joint ventures and associates</b>		<b>45.3</b>	42.2
Net finance costs	10	<b>(6.3)</b>	(9.3)
<b>Adjusted profit before taxation from continuing operations</b>		<b>39.0</b>	32.9
<b>Adjusted earnings per share from continuing operations</b>	13		
Basic adjusted earnings per share		<b>44.8p</b>	36.7p
Diluted adjusted earnings per share		<b>44.1p</b>	36.2p

Company  
OverviewBusiness  
ReviewCorporate  
GovernanceFinancial  
Statements

# Group Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	2011 £m	2011 £m	2010 £m	2010 £m
<b>Profit for the year</b>			<b>29.2</b>		27.5
Foreign exchange translation differences		(11.6)		34.8	
Fair value movement on net investment hedges		4.9		(7.1)	
Fair value movement on cash flow hedges		1.2		0.3	
Actuarial gain on retirement benefit obligations		0.9		5.2	
Tax relating to components of other comprehensive income	11	(0.5)		(9.6)	
<b>Other comprehensive (expense)/income for the year</b>			<b>(5.1)</b>		23.6
<b>Total comprehensive income for the year</b>			<b>24.1</b>		51.1
<b>Attributable to:</b>					
Owners of the Company			<b>24.1</b>		51.1
Minority interests			–		–
			<b>24.1</b>		51.1



# Group Statement of Changes in Equity

Note	Called up share capital £m	Share premium account £m	Own shares £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
<b>Balance at 30 June 2009</b>									
Foreign exchange translation differences, net of tax	6.0	111.7	(0.1)	10.4	(1.4)	78.0	204.6	–	204.6
Fair value movement on net investment hedges, net of tax	–	–	–	27.0	–	–	27.0	–	27.0
Fair value movement on cash flow hedges, net of tax	–	–	–	(7.1)	–	–	(7.1)	–	(7.1)
Actuarial gain on retirement benefit obligations, net of tax	–	–	–	–	0.2	–	0.2	–	0.2
	–	–	–	–	–	3.5	3.5	–	3.5
<b>Other comprehensive income for the year</b>	–	–	–	19.9	0.2	3.5	23.6	–	23.6
Profit for the year	–	–	–	–	–	27.5	27.5	–	27.5
<b>Total comprehensive income for the year</b>	–	–	–	19.9	0.2	31.0	51.1	–	51.1
Recognition of share-based payments, net of tax	–	–	–	–	–	2.0	2.0	–	2.0
Issue of ordinary shares	–	0.3	–	–	–	–	0.3	–	0.3
Minority interest on acquisition	–	–	–	–	–	–	–	0.3	0.3
Dividends	12	–	–	–	–	(6.5)	(6.5)	–	(6.5)
<b>Balance at 30 June 2010</b>									
Foreign exchange translation differences, net of tax	6.0	112.0	(0.1)	30.3	(1.2)	104.5	251.5	0.3	251.8
Fair value movement on net investment hedges, net of tax	–	–	–	(9.6)	–	–	(9.6)	–	(9.6)
Fair value movement on cash flow hedges, net of tax	–	–	–	3.5	–	–	3.5	–	3.5
Actuarial gain on retirement benefit obligations, net of tax	–	–	–	–	0.9	–	0.9	–	0.9
	–	–	–	–	–	0.1	0.1	–	0.1
<b>Other comprehensive (expense)/income for the year</b>	–	–	–	(6.1)	0.9	0.1	(5.1)	–	(5.1)
Profit for the year	–	–	–	–	–	29.2	29.2	–	29.2
<b>Total comprehensive (expense)/income for the year</b>	–	–	–	(6.1)	0.9	29.3	24.1	–	24.1
Recognition of share-based payments, net of tax	–	–	–	–	–	3.2	3.2	–	3.2
Dividends	12	–	–	–	–	(7.2)	(7.2)	–	(7.2)
<b>Balance at 30 June 2011</b>	<b>6.0</b>	<b>112.0</b>	<b>(0.1)</b>	<b>24.2</b>	<b>(0.3)</b>	<b>129.8</b>	<b>271.6</b>	<b>0.3</b>	<b>271.9</b>

Company  
OverviewBusiness  
ReviewCorporate  
GovernanceFinancial  
Statements



# Group Balance Sheet

As at 30 June 2011

	Note	2011 £m	2010 £m	2009 £m
<b>Assets</b>				
Goodwill	14	<b>68.3</b>	68.4	62.5
Other intangible assets	14	<b>75.6</b>	81.5	81.1
Biological assets	15	<b>187.0</b>	175.5	153.9
Property, plant and equipment	16	<b>40.8</b>	43.4	39.3
Interests in joint ventures and associates	17	<b>8.5</b>	7.4	5.3
Available for sale investments	18	<b>0.2</b>	0.3	0.3
Derivative financial assets	25	<b>–</b>	0.9	1.7
Deferred tax assets	19	<b>15.6</b>	17.5	22.1
<b>Total non-current assets</b>		<b>396.0</b>	394.9	366.2
Inventories	20	<b>33.5</b>	31.1	28.0
Biological assets	15	<b>27.3</b>	37.0	28.0
Trade and other receivables	21	<b>65.0</b>	60.2	53.7
Cash and cash equivalents	22	<b>18.3</b>	18.1	20.6
Income tax receivable		<b>1.0</b>	0.8	1.4
Asset held for sale		<b>0.3</b>	0.3	–
<b>Total current assets</b>		<b>145.4</b>	147.5	131.7
<b>Total assets</b>		<b>541.4</b>	542.4	497.9
<b>Liabilities</b>				
Trade and other payables	23	<b>(47.3)</b>	(42.3)	(39.0)
Interest-bearing loans and borrowings	26	<b>(4.0)</b>	(1.6)	(2.5)
Provisions	24	<b>(0.2)</b>	(0.4)	(0.2)
Obligations under finance leases	27	<b>(0.9)</b>	(0.9)	(0.9)
Current tax liabilities		<b>(5.5)</b>	(3.5)	(4.8)
Derivative financial liabilities	25	<b>(0.4)</b>	(12.2)	–
<b>Total current liabilities</b>		<b>(58.3)</b>	(60.9)	(47.4)
Interest-bearing loans and borrowings	26	<b>(80.5)</b>	(94.6)	(104.2)
Retirement benefit obligations	28	<b>(23.6)</b>	(28.8)	(35.4)
Provisions	24	<b>(1.2)</b>	(1.4)	(1.8)
Deferred tax liabilities	19	<b>(104.9)</b>	(103.6)	(93.7)
Derivative financial liabilities	25	<b>(0.2)</b>	(0.3)	(9.8)
Obligations under finance leases	27	<b>(0.8)</b>	(1.0)	(1.0)
<b>Total non-current liabilities</b>		<b>(211.2)</b>	(229.7)	(245.9)
<b>Total liabilities</b>		<b>(269.5)</b>	(290.6)	(293.3)
<b>Net assets</b>		<b>271.9</b>	251.8	204.6
<b>Equity</b>				
Called up share capital	30	<b>6.0</b>	6.0	6.0
Share premium account		<b>112.0</b>	112.0	111.7
Own shares	30	<b>(0.1)</b>	(0.1)	(0.1)
Translation reserve	30	<b>24.2</b>	30.3	10.4
Hedging reserve	30	<b>(0.3)</b>	(1.2)	(1.4)
Retained earnings		<b>129.8</b>	104.5	78.0
<b>Equity attributable to owners of the Company</b>		<b>271.6</b>	251.5	204.6
<b>Minority interest</b>		<b>0.3</b>	0.3	–
<b>Total equity</b>		<b>271.9</b>	251.8	204.6

The Financial Statements of Genus plc (registration number 02972325) were approved by the Board of Directors on 5 September 2011.

Signed on behalf of the Board of Directors



**R K Wood**  
Chief Executive



**J G Worby**  
Group Finance Director



# Group Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 £m	2010 £m
<b>Net cash flow from operating activities</b>	31	<b>28.1</b>	26.5
<b>Cash flows from investing activities</b>			
Dividends received from joint ventures and associates		1.9	1.1
Purchase of trade and assets		–	(1.1)
Purchase of property, plant and equipment		(3.5)	(6.3)
Purchase of intangible assets		(1.3)	(1.7)
Proceeds from sale of property, plant and equipment		0.7	0.6
<b>Net cash outflow from investing activities</b>		<b>(2.2)</b>	(7.4)
<b>Cash flows from financing activities</b>			
Drawdown of borrowings		16.1	9.5
Repayment of borrowings		(23.4)	(24.7)
Payment of finance lease liabilities		(1.0)	(1.0)
Equity dividends paid		(7.2)	(6.5)
Cash settlement of derivative financial instrument		(7.0)	–
New debt issue costs		(1.7)	–
Issue of ordinary shares		–	0.3
Decrease in bank overdrafts		(1.6)	(0.5)
<b>Net cash outflow from financing activities</b>		<b>(25.8)</b>	(22.9)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>0.1</b>	(3.8)
Cash and cash equivalents at start of the year		18.1	20.6
Net increase/(decrease) in cash and cash equivalents		0.1	(3.8)
Effect of exchange rate fluctuations on cash and cash equivalents		0.1	1.3
<b>Total cash and cash equivalents at 30 June</b>	22	<b>18.3</b>	18.1

Company  
OverviewBusiness  
ReviewCorporate  
GovernanceFinancial  
Statements

# Notes to the Group Financial Statements

For the year ended 30 June 2011

## 1. Reporting entity

Genus plc (the 'Company') is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Belvedere House, Basing View, Basingstoke, Hampshire RG21 4HG. The nature of the Group's operations and its principal activities are set out in the Company Overview. The Group Financial Statements for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Group') and the equity method is used to account for the Group's interests in joint ventures and associates.

## 2. Basis of preparation

The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and therefore comply with Article 4 of the IAS Regulation.

The significant accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group Financial Statements.

Certain comparative amounts have been reclassified to conform with the current year's presentation as described in the relevant notes.

### Functional and presentation currency

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

### Basis of measurement

The Group Financial Statements are prepared under the historical cost convention, except for the following, in accordance with IFRS:

- > biological assets are measured at fair value less point-of-sale costs, which represent the costs of distribution and selling expenses; and
- > derivative financial instruments are measured at fair value.

### Use of estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 4.

### Going concern

As set out in the Directors' Responsibility Statement, after reviewing the available information including the Group's business plans and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Basis of consolidation

Subsidiaries are entities controlled by the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The results of subsidiaries acquired are fully consolidated from the date on which control is transferred to the Group. The results of subsidiaries sold cease to be consolidated from the date on which control passes.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The Group Financial Statements include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.



Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The Group Financial Statements include the Group's share of profit or loss arising from joint ventures.

Intra-Group balances and any unrealised income and expenses arising from intra-Group transactions are eliminated in preparing the Group Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### Non GAAP measures – adjusted operating profit and adjusted profit before tax

Adjusted operating profit and adjusted operating profit before tax from continuing operations are defined before the net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, share-based payment expense, exceptional items and other gains and losses. This additional non-GAAP measure of operating performance is included as the Directors believe that they provide a useful alternative measure for shareholders of the trading performance of the Group. The reconciliation between operating profit from continuing operations and adjusted operating profit from continuing operations is shown on the face of the Group Income Statement. The Directors recognise this alternative measure has limitations.

### Foreign currency

Transactions in foreign currencies are recorded in the functional currency of the relevant Group entity at the exchange rate prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date and the related foreign exchange differences arising on retranslation are recognised in the Group Income Statement.

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 translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated into Sterling at the foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period.

Exchange differences arising from the translation into Sterling of foreign operations, and the fair value movement of related effective hedges, are taken to the foreign currency translation reserve. They are released into the income statement upon disposal of the foreign operation.

Exchange movements on intercompany loans designated as long-term funding are taken to the foreign currency translation reserve, together with any related taxation.

The principal exchange rates were as follows:

	Average			Closing		
	2011	2010	2009	2011	2010	2009
US Dollar/£	<b>1.60</b>	1.58	1.60	<b>1.61</b>	1.50	1.65
Euro/£	<b>1.16</b>	1.14	1.17	<b>1.11</b>	1.22	1.17

## 3. Significant accounting policies

### Business combinations

All business combinations are accounted for by applying the purchase method. The cost of acquisition is measured at the aggregate of the fair value at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the profit and loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 '*Non-current assets held for sale and discontinued operations*', which are recognised and measured at fair value less costs to sell.





# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 3. Significant accounting policies *continued*

### Goodwill

Goodwill arising on the acquisition of a subsidiary, associate or joint venture represents the excess of the cost of acquisition excluding transaction costs over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Identifiable assets include any intangible assets which could be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

As required by IAS 21, goodwill arising on acquisition of a foreign operation and any fair value adjustments made to the carrying amounts of assets and liabilities within the acquired operation on acquisition are treated as assets and liabilities of the acquired entity rather than assets or liabilities of the acquiring entity, and are therefore expressed in the functional currency of the foreign operation and retranslated at the balance sheet date.

### Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as incurred.

The Group constantly monitors its research activities and when research projects satisfy the condition for achieving technical feasibility and are commercially viable, the Group's policy is to capitalise further development costs in accordance with IAS 38.

The Group's development activities comprise the development and maintenance of the porcine genetic nucleus herd and the development and maintenance of bovine pre-stud herds.

The Group does not capitalise development expenditure separately for these herds as their fair value is included within the fair value of the Group's biological assets in accordance with IAS 41.

The Group discloses the costs incurred in research and herd development activities as required by IAS 38.

### Exceptional items

The Group presents items which the Directors believe to be exceptional in nature by virtue of their size or incidence as exceptional.

### Intangible assets

Intangible assets acquired by the Group in a business combination subsequent to 1 April 2005 are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The estimated useful lives are as follows:

Software	2 to 10 years
Porcine genetics technology	20 years
Multiplier contracts	15 years
Customer relationships	15 to 17 years

### Intangible assets acquired separately

Intangible assets acquired other than through a business combination are carried at cost less accumulated amortisation and any impairment loss. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.



## Impairment

The carrying amounts of the Group's tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, and tangible and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

The recoverable amount is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 11.4% (2010: 11.4%), the Group's weighted average cost of capital. A premium is added to this rate to reflect the risk attributable to individual countries. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

## Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## Biological assets and inventories

The principal activity of the Group during the period was the global application of quantitative genetics and biotechnology to animal breeding. The Group utilises these techniques to identify and select animals that possess the genetics/genes responsible for superior milk and meat quality, high health and performance traits. Genus sells breeding animals and semen to customers who produce offspring which yield greater production efficiency, milk and meat quality for the global dairy and meat supply chain.

In bovine, research and development is used to identify genetically superior bulls in a number of breeds, but primarily the Holstein dairy breed. Progeny testing of the performance of daughters for each bull selected measures their performance against those of their peers. Semen from the best bulls is collected and frozen to satisfy customer demand. Semen from dairy breeds is used by farmers to breed replacement milking stock. Semen sold from beef breeds is used in either specialist beef breeding herds for multiplication of breeding bulls for use in natural service or on dairy cows to produce a by-product to be reared for meat.

Bovine biological assets are held for long-term internal use and are classified as non-current assets. Bull semen is transferred to inventory at fair value at point of harvest, which becomes the deemed cost under IAS 2. Inventories are stated at the lower of this deemed cost and net realisable value.

Since the sorting of semen is not a biological process but a production process, semen inventory transferred into sexed semen production is transferred at fair value at point of harvest less cost to sell and becomes a component of the production process. Sexed semen is carried in finished goods at production cost.

In porcine, a central breeding stock (the 'nucleus herd') is maintained and developed to provide genetically superior animals. The animal genetics offer the potential to improve profitability for farmer and food processing customers by enabling them to increase output of consistently high quality products yielding higher value. To allow the Group to capitalise on its intellectual property it almost entirely outsources production to its global multiplier network. The offspring or semen obtained from animals in the nucleus herd is sold to customers for use in commercial farming. The sale of semen is far less common as porcine semen is sold fresh and has a short life when frozen.



# Notes to the Group Financial Statements *continued*

## For the year ended 30 June 2011

### 3. Significant accounting policies *continued*

Sales of porcine animals generally occur in one of two ways: 'direct' and 'indirect'. Under direct sales, the full fair value of the animal is receivable at point of transfer to the customer. Under indirect sales, the pig is regarded as comprising of two separately identifiable components, its carcass and its inherent genetic potential. The initial consideration, which approximates the carcass value of the animal, is receivable at the point that the pig is transferred to the customer. The Group retains its interest in the genetic potential of the pig and consideration for the use of this genetic potential is received in the form of royalties.

The breeding animal biological assets owned by Genus and the retained interest in the biological assets sold under royalty contracts are recognised and measured at fair value at each balance sheet date. Changes in fair value are recognised in the income statement within operating profit for the period.

Porcine biological assets which are in use as breeding animals are classified as non-current assets and are carried at fair value. Porcine biological assets held with an intention of resale, being the offspring of the breeding herd, are carried at fair value and classified as current assets. The retained interest in the genetics from indirect sales is split between current and non-current assets based on the remaining expected life of the related animals.

#### Determination of fair values – biological assets

As required by IAS 41 'Agriculture', the Group shows the carrying value of biological assets in the Group Balance Sheet determined according to the provisions of IAS 41 with the net valuation movement shown in the income statement. There are important differences in the manner in which the value of the Group's bovine and porcine assets are arrived at, as explained below.

**Bovine** – the fair value of proven bulls and bulls on test, proven bulls being those where the bull's semen is actively marketed, is based on expected future net cash flows from the sale of semen, the bull's harvest, discounted at a current market-determined pre-tax rate. The fair value of the bovine herd and semen inventory managed by the Group has been adjusted where a third party has a revenue share in the sale of semen from a particular bull. The significant assumptions determining the fair values are the expected future demand for semen, estimated production value, the expected marketable life of each bull and, in addition for bulls on test, the percentage whose production is expected to be actively marketed. In assessing the sales price, management uses statistical data for the bulls produced by independent authorities, in all its major markets, three times a year. In addition, estimates are also used to determine into which markets the semen will be sold, and domestic and export prices. The fair value of bulls that have not yet entered the Group testing programme is equivalent to their acquisition and rearing costs.

**Porcine** – the fair values of porcine biological assets encompasses both the animals owned entirely by Genus and the retained interest in the genetics of those animals sold under royalty arrangements. The fair value of animals owned by the Group is calculated using average live weights of the animals plus a premium where it is considered that they will be saleable for their favourable genetic characteristics. The value attributed to the live weight of the pigs and the premium for genetics is based on recent transaction prices achieved by the Group. The significant assumptions in determining fair values are the expected life of the breeding animals, the percentage of production animals which are expected to be saleable as breeding animals and the expected sales prices. The fair value of the retained interest in the genetics of those animals sold under royalty contracts is initially based on the fair values achieved by the Group in recent transactions from direct sales of similar animals, less the values received upfront for the sale of the carcass element. The fair value of the retained interest is remeasured at each reporting date. The significant assumption in determining the fair value of the retained interest is the expected life of the animal transferred under royalty contracts.

#### Non recognition of porcine multiplier contracts where no contractual interest is retained by the Group

In order to manage commercial risk a very large part of the Group's porcine business model involves the sale of pigs to farmers ('multipliers') who produce piglets on farms neither managed nor controlled by the Group. The Group has the option to purchase the offspring at slaughter market value plus a premium but no obligation to do so. The Group then has the ability to sell the offspring to other farmers at a premium because the offspring has superior genetics.

The right to purchase offspring is not recognised on the balance sheet as the contracts are entered into and continue to be held for the purpose of the receipt of non-financial items (the offspring) in accordance with the Group's expected purchase requirements. As such the option is outside the scope of IAS 39. The offspring are not recognised as biological assets under IAS 41 as they are neither owned nor controlled by the Group.



### Property, plant and equipment

Property, plant and equipment are stated at cost, together with any directly attributable expenses of acquisition, or at their latest valuation, less depreciation and any impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets not available for use are not depreciated. The estimated useful lives are as follows:

> Freehold land	Nil
> Freehold buildings	10 to 15 years
> Leasehold buildings	over the term of the lease
> Plant and equipment	3 to 20 years
> Motor vehicles	3 to 5 years

### Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

### Cash and cash equivalents

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

### Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the expected life of the borrowings on an effective interest rate basis.

### Provisions

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

### Revenue

Revenue comprises the invoiced value of sales and royalties receivable from customers, net of trade discounts and value added tax.

The principal components of the Group's revenue and their respective accounting treatments are:

- > Revenue from the sale of bovine and porcine semen, porcine breeding animals and veterinary products is recognised upon transfer of risks and rewards, either upon shipment to customers or delivery depending on the terms of sale.
- > Royalties are recognised when receivable. Royalty payments are received from certain porcine customers based on key performance variables such as the number of pigs born per litter, the number of litters born per sow and the average slaughter weight of animal born.
- > Revenue from consulting services represents amounts charged for professional services provided during the year including recoverable expenses but excluding value added tax. Services provided but not yet billed are recognised as revenue based on a fair value assessment of the work delivered and a contractual right to receive payment. Where unbilled revenue is contingent on a future event, nothing is recognised until the contingent event crystallises.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.





# Notes to the Group Financial Statements *continued*

## For the year ended 30 June 2011

### 3. Significant accounting policies *continued*

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

#### Finance costs

Interest income and interest payable are recognised in the income statement as they accrue. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Finance costs that are directly attributable to construction of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other borrowing costs are recognised in the income statement in the period in which they are incurred.

#### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity, or arises as a fair value adjustment in a business combination.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or to be recovered) using the tax rates and the laws that have been enacted or substantially enacted at the balance sheet date, together with any adjustments to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Share-based payments

In accordance with IFRS 2, the fair value of share awards and options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the vesting period of each option. The fair value of the options granted is measured using a Binomial valuation model. The fair value of the awards granted is measured using a Black-Scholes valuation model. The amount recognised as an expense is adjusted to reflect the estimated performance against non market related conditions and the number of share awards and options that actually vest at the end of the vesting period.

#### Treasury shares

Transactions, assets and liabilities of the Group-sponsored Qualifying Employee Share Ownership Trust ('QUEST') are included in the Group Financial Statements. In particular, the trust's purchases of shares in the Company remain deducted from shareholders' funds until they vest unconditionally with employees.



## Retirement benefit obligations

### Defined contribution pension schemes

A number of employees are members of defined contribution pension schemes. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme. Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the balance sheet. The assets of these schemes are held separately from those of the Group.

### Defined benefit schemes

The Group operates defined benefit schemes for some of its employees, which are closed to new members. The Group's net obligation in respect of defined benefit schemes is calculated separately for each plan 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, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the market yield at the balance sheet date on high quality corporate bonds that have terms to maturity approximating to the Group's pension liabilities. The calculations are performed by qualified actuaries using the projected unit market method.

Actuarial gains and losses including the difference between the expected and actual return on scheme assets and experience gains and losses on scheme liabilities are recognised in the period in which they occur directly into equity through the Group Statement of Changes in Equity.

Pension costs are recognised on a systematic basis to match the costs of providing retirement benefits evenly over the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities is allocated over the average remaining service lives of current employees.

For one of the defined benefits schemes the Group operates, the Milk Pension Fund, the Group is a participating employer and takes a multi-employer exemption and only accounts for its share of the schemes assets and liabilities and its share of any orphan assets and liabilities. The Group, together with the other participating employers, is joint and severally liable for the scheme's total obligations. These obligations are disclosed as a contingent liability.

### Derivative financial instruments and hedging activities

The Group uses forward foreign currency contracts to hedge exposure to translation risk associated with US Dollar net assets of subsidiary entities. The Group also uses interest rate swaps to hedge interest rate risk.

The fair value of the US Dollar and interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

### 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 in equity in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Group Income Statement.

Where a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are recycled in the Group Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Group Income Statement, i.e. when interest income or expense is recognised.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes 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 immediately in the Group Income Statement.

# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 3. Significant accounting policies *continued*

### Net investment hedges

Where a derivative financial instrument is designated as a hedge of the variability of the net assets of an overseas subsidiary entity arising from the spot or forward exchange rate translation risk associated with the functional currency of overseas subsidiary entities, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Group Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, the cumulative gain or loss at that point remains in equity until such point as the investment to which it relates is disposed.

Net investment hedge accounting is applied solely in the Group Financial Statements.

### New standards and interpretations adopted

The following new standards and interpretations have been adopted in the current year but have not impacted the reported results or the financial position:

- > Amendments to IAS 32 '*Classification of Rights Issues*'
- > Amendment to IFRS 1, '*Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters*'
- > Amendments to IFRS 2 '*Group Cash-settled Share-based Payment Transactions*'
- > IFRIC 19 '*Extinguishing Financial Liabilities with Equity Instruments*'

The adoption of these new standards and interpretation has not changed any previously reported figures.

### New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which have been endorsed by the EU but are not yet effective for the year ended 30 June 2011, and have not been applied in preparing these Group Financial Statements:

- > Amendments to IAS 1, IAS 12, IAS 19, IAS 24, IAS 27, IAS 28, IFRS 7 and IFRIC 14
- > IFRS 9 '*Financial Instruments – Classification and Measurement*'

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, except for IFRS 9 '*Financial Instruments*', which will introduce a number of changes in the presentation of financial instruments.

IFRS 10 '*Consolidated Financial Statements*', IFRS 11 '*Joint Arrangements*', IFRS 12 '*Disclosure of Interests in Other Entities*' and IFRS 13 '*Fair Value Measurement*' were issued by the IASB on 12 May 2011 and are effective for annual periods beginning on or after 1 January 2013. These pronouncements have not yet been endorsed for use in the European Union.

## 4. Significant areas of judgement and determination of fair values

Management consider the critical accounting policies and significant areas of judgement to be the following:

### Determination of the fair value of biological assets

The determination of the fair values of bovine and porcine biological assets requires the use of significant judgement and assumptions including an estimation of future cash flows, use of appropriate discount rate in order to calculate present value, forecast sales volumes, proportion to slaughter and the length of lives of animals. See note 15.

### Fair value of assets and liabilities on business combinations

The Group's accounting policy on the acquisition of subsidiaries is to determine the net fair value of identifiable assets, liabilities and contingent liabilities acquired with the fair value of any consideration in excess of this amount representing goodwill. In determining the fair values of assets, liabilities and contingent liabilities acquired, the use of significant judgement and assumptions with respect to estimated future cash flows and unprovided liabilities and commitments, particularly to tax, are often involved.

The determination of the useful life of intangible assets, particularly on those arising on acquisition, involves the exercise of management judgement.



### Impairment of goodwill, intangible and tangible assets

Determining whether goodwill, intangible and tangible assets are impaired requires a consideration of any specific impairment indicators and an estimation of the value in use of the cash-generating units to which goodwill, intangible and tangible assets have been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and the appropriate discount rate in order to calculate present value. See note 14.

### Recognition of deferred tax assets

In recognising income tax assets and liabilities, the Directors make estimates of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain. In recognising deferred tax assets and liabilities management also makes judgements about likely future taxable profits. When the final outcome of such matters, including the recognition of deferred tax assets on tax losses, is different, or expected to be different, from previous assessments by management, a change to the carrying value of income tax assets and liabilities will be recorded in the period in which such a determination is made. See note 19.

### Defined benefit pension scheme

Amounts recorded in the financial statements in respect of defined benefit pension schemes are also based on significant estimates and judgement. Details of estimates and judgements made in calculating these transactions are contained in note 28. For one of the defined benefit schemes, the Milk Pension Fund, the Group only accounts for its share of assets and liabilities. The Group, together with the other participating employers, is joint and severally liable for the scheme's obligations. These obligations are disclosed as a contingent liability.

### Share-based payments

Amounts recorded in the financial statements in respect of share-based payments are also based on significant estimates and judgement. Details of estimates and judgements made in calculating these transactions are contained in note 29.

## 5. Segmental information

The Group presents its segmental information on the basis reviewed regularly for assessing business performance and for the purposes of resource allocation, by the chief operating decision maker.

The Group is managed using a combination of regional market segments and a research and development segment.

The Group's business is not highly seasonal and its customer base is diversified, with no individual customer generating in excess of 2% of revenue.

### Revenue

	Gross revenue 2011 £m	Inter- segment revenue 2011 £m	Consolidated revenue 2011 £m
North America	114.5	(6.5)	108.0
Latin America	47.0	(0.6)	46.4
Europe	113.3	(2.3)	111.0
Far East	35.9	(0.5)	35.4
Research & Product Development			
Research	–	–	–
Bovine Product Development	7.4	(6.9)	0.5
Porcine Product Development	12.9	(4.3)	8.6
	20.3	(11.2)	9.1
	331.0	(21.1)	309.9



# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 5. Segmental information *continued*

### Revenue

	Gross revenue 2010 £m	Inter-segment revenue 2010 £m	Consolidated* revenue 2010 £m
North America	103.0	(3.6)	99.4
Latin America	38.6	(0.6)	38.0
Europe	112.9	(2.4)	110.5
Far East	32.1	(0.3)	31.8
Research & Product Development			
Research	—	—	—
Bovine Product Development	7.0	(6.5)	0.5
Porcine Product Development	8.4	(3.3)	5.1
	15.4	(9.8)	5.6
	302.0	(16.7)	285.3

Operating profit by segment and a reconciliation to adjusted operating profit for the Group is set out below. A reconciliation of adjusted operating profit to profit for the year is shown on the Group Income Statement.

	Result before recharges 2011 £m	Product Development recharges 2011 £m	Segment total 2011 £m
North America	40.9	(5.6)	35.3
Latin America	16.1	(2.6)	13.5
Europe	20.5	(2.1)	18.4
Far East	8.3	(0.9)	7.4
Regional operating profit	85.8	(11.2)	74.6
Research & Product Development			
Research	(3.9)	—	(3.9)
Bovine Product Development	(18.8)	6.9	(11.9)
Porcine Product Development	(13.8)	4.3	(9.5)
	(36.5)	11.2	(25.3)
<b>Segment operating profit</b>	<b>49.3</b>	<b>—</b>	<b>49.3</b>
Central costs	(7.1)	—	(7.1)
<b>Adjusted operating profit</b>	<b>42.2</b>	<b>—</b>	<b>42.2</b>

	Result before recharges 2010 £m	Product Development recharges 2010 £m	Segment* total 2010 £m
North America	35.3	(4.4)	30.9
Latin America	14.8	(2.4)	12.4
Europe	21.4	(2.4)	19.0
Far East	8.6	(0.6)	8.0
Regional operating profit	80.1	(9.8)	70.3
Research & Product Development			
Research	(3.3)	—	(3.3)
Bovine Product Development	(16.6)	6.5	(10.1)
Porcine Product Development	(13.4)	3.3	(10.1)
	(33.3)	9.8	(23.5)
<b>Segment operating profit</b>	<b>46.8</b>	<b>—</b>	<b>46.8</b>
Central costs	(6.9)	—	(6.9)
<b>Adjusted operating profit</b>	<b>39.9</b>	<b>—</b>	<b>39.9</b>

\* Segmental information has been amended to show Russia and India as part of the Far East in line with reporting responsibilities; some reallocations have also been made to prior year numbers to reflect changes introduced in 2011 to ensure comparability with the current year.



	Depreciation		Amortisation		Additions to non-current assets	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
North America	1.0	1.4	2.4	2.4	1.6	–
Latin America	0.4	0.4	0.4	0.4	0.5	0.3
Europe	0.6	1.2	2.7	2.7	0.5	0.7
Far East	0.3	0.2	0.3	0.3	0.4	0.4
Research & Product Development						
Research	0.1	0.1	–	–	–	0.1
Bovine Product Development	0.5	0.5	–	–	0.9	3.2
Porcine Product Development	1.8	1.6	–	–	0.4	2.4
	2.4	2.2	–	–	1.3	5.7
<b>Segment total</b>	<b>4.7</b>	<b>5.4</b>	<b>5.8</b>	<b>5.8</b>	<b>4.3</b>	<b>7.1</b>

	Segment assets			Segment liabilities		
	2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m
North America	121.2	132.0	135.0	(44.4)	(30.5)	(32.3)
Latin America	60.0	61.6	47.5	(13.2)	(10.5)	(9.1)
Europe	94.7	90.0	91.7	(44.2)	(51.8)	(49.6)
Far East	31.5	29.2	23.7	(8.8)	(5.9)	(5.3)
Research & Product Development						
Research	0.5	0.5	0.5	–	–	–
Bovine Product Development	176.3	166.1	136.6	(53.6)	(48.2)	(38.8)
Porcine Product Development	46.4	55.5	42.1	(8.2)	(10.3)	(11.7)
	223.2	222.1	179.2	(61.8)	(58.5)	(50.5)
<b>Segment total</b>	<b>530.6</b>	<b>534.9</b>	<b>477.1</b>	<b>(172.4)</b>	<b>(157.2)</b>	<b>(146.8)</b>
Central and unallocated	10.8	7.5	20.8	(97.1)	(133.4)	(146.5)
<b>Total</b>	<b>541.4</b>	<b>542.4</b>	<b>497.9</b>	<b>(269.5)</b>	<b>(290.6)</b>	<b>(293.3)</b>

Exceptional items of £1.2m gain (2010: £2.8m gain) include £1.2m specifically related to central costs (2010: £2.5m). The other exceptional items and share-based payments are considered on a Group-wide basis and are therefore not allocated to reportable segments. For details of exceptional items see note 7.

## 6. Revenue

	2011 £m	2010 £m
Sale of animals, semen and veterinary products	245.5	228.8
Royalties	57.1	49.5
Consulting services	7.3	7.0
	309.9	285.3
Interest income	0.4	0.3
<b>Total</b>	<b>310.3</b>	<b>285.6</b>

# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 7. Exceptional items

	2011 £m	2010 £m
<b>Operating income:</b>		
Pension curtailment gain	0.6	2.5
Insurance settlement	0.6	–
Integration and restructuring credit	–	0.3
	<b>1.2</b>	<b>2.8</b>

The pension curtailment gain in the year ended 30 June 2011 of £0.6m arose on the closure to future accrual of defined benefit pensions within the Dalgety Pension Fund (see note 28). In the prior year, the pension curtailment gain of £2.5m arose on the closure to future accrual of defined benefit pensions within the Milk Pension Fund.

The insurance settlement income relates to cash received from an insurance claim which was previously thought to be irrecoverable.

## 8. Operating profit

Operating costs comprise:

	2011 £m	2010* £m
Cost of sales excluding net IAS 41 valuation movement on biological assets and amortisation of multiplier contract intangible assets	(126.1)	(115.7)
Net IAS 41 valuation movement on biological assets	9.8	11.0
Amortisation of multiplier contract intangible assets	(0.2)	(0.2)
<b>Cost of sales</b>	<b>(116.5)</b>	<b>(104.9)</b>
Distribution costs	(86.6)	(80.1)
Amortisation of customer relationship intangible assets	(3.0)	(2.9)
<b>Distribution costs</b>	<b>(89.6)</b>	<b>(83.0)</b>
Research & Product Development expenditure	(25.3)	(23.6)
Amortisation of technology intangible assets	(2.0)	(2.0)
<b>Research &amp; Product Development costs</b>	<b>(27.3)</b>	<b>(25.6)</b>
Administrative expenses	(29.1)	(25.3)
Share-based payment expense	(3.2)	(1.6)
Amortisation of software	(0.6)	(0.7)
Exceptional items within administrative expenses	1.2	2.8
<b>Total administrative expenses</b>	<b>(31.7)</b>	<b>(24.8)</b>
<b>Total operating costs</b>	<b>(265.1)</b>	<b>(238.3)</b>

\* The prior year numbers have been restated to reflect changes in allocations introduced in 2011 to ensure comparability with the current year. This has increased cost of sales by £0.4m and reduced Research & Product Development expenditure by £0.4m.

Profit for the year is stated after charging/(crediting):

	2011 £m	2010 £m
Net foreign exchange (gains)/losses	(0.1)	0.1
Depreciation of owned fixed assets	4.2	4.8
Depreciation of assets held under finance leases and hire purchase contracts	0.5	0.6
Gain on disposal of fixed assets	(0.1)	–
Operating lease rentals		
– plant and machinery	1.3	1.6
– other	4.8	4.2
Employee costs (see note 9)	89.7	81.9
Cost of inventories recognised as an expense	56.0	55.2



	2011 £m	2010 £m
<b>Auditors' remuneration is as follows:</b>		
Fees payable to the Company's auditors for the audit of the Company's Annual Report and Financial Statements	0.1	0.2
Fees payable to the Company's auditors and associates for the audit of the Company's subsidiaries	0.4	0.3
<b>Total audit fees</b>	<b>0.5</b>	<b>0.5</b>
Tax services	0.4	0.4
Other services	0.1	0.1
<b>Total non-audit fees</b>	<b>0.5</b>	<b>0.5</b>
<b>Total fees to the Group's auditors</b>	<b>1.0</b>	<b>1.0</b>
<b>Fees payable to other auditors of Group companies</b>	<b>0.1</b>	<b>0.1</b>

Non-audit services principally comprise tax advisory and tax compliance support services. These services fall within the services policy approved by the Company's Audit Committee.

## 9. Employee costs

Employee costs, including Directors' remuneration but excluding exceptional items, during the year amounted to:

	2011 £m	2010 £m
Wages and salaries	79.0	73.7
Social security costs	6.5	5.2
Contributions to defined contribution pension plans	1.3	0.7
Expenses related to defined benefit pension plans	0.2	0.9
Share-based payment expense	2.7	1.4
	<b>89.7</b>	<b>81.9</b>

The average monthly number of employees, including Executive Directors, during the year was as follows:

	2011 No	2010 No
North America	581	585
Latin America	143	126
Europe (excluding UK)	291	292
UK	666	671
Far East	291	319
Research & Product Development	109	101
	<b>2,081</b>	<b>2,094</b>

Details of Directors' remuneration, pensions and share options are included in the Directors' Remuneration Report.

## 10. Net finance costs

	2011 £m	2010 £m
Interest payable on bank loans and overdrafts	(3.1)	(3.5)
Amortisation of debt issue costs	(1.7)	(1.6)
Net interest cost in respect of pension scheme liabilities	–	(1.7)
Other interest payable	(0.3)	(0.1)
Net interest cost on derivative financial instruments	(1.6)	(2.7)
<b>Total interest expense</b>	<b>(6.7)</b>	<b>(9.6)</b>
Interest income on bank deposits	0.2	0.3
Net interest income in respect of pension scheme liabilities	0.2	–
<b>Total interest income</b>	<b>0.4</b>	<b>0.3</b>
<b>Net finance costs</b>	<b>(6.3)</b>	<b>(9.3)</b>



# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 11. Income tax expense

	2011 £m	2010 £m
<b>Current tax expense</b>		
Current period	8.7	7.7
Adjustment for prior periods	(0.7)	(0.7)
<b>Total current tax expense in the Group Income Statement</b>	<b>8.0</b>	<b>7.0</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences (see note 19)	3.4	6.2
Adjustment for prior period	0.2	0.1
<b>Total deferred tax expense in the Group Income Statement</b>	<b>3.6</b>	<b>6.3</b>
<b>Total income tax expense excluding share of income tax of equity accounted investees</b>	<b>11.6</b>	<b>13.3</b>
Share of income tax of equity accounted investees	0.4	1.0
<b>Total income tax expense in the Group Income Statement</b>	<b>12.0</b>	<b>14.3</b>

## Reconciliation of effective tax rate

	2011 %	2011 £m	2010 %	2010 £m
<b>Profit before tax</b>	<b>100</b>	<b>40.8</b>	<b>100</b>	<b>40.8</b>
Income tax at UK corporation tax of 27.5% (2010: 28%)	94	11.2	80	11.4
Effect of tax rates in foreign jurisdictions	23	2.8	17	2.4
Non-deductible expenses	3	0.4	3	0.5
Tax exempt income and incentives	(12)	(1.5)	(9)	(1.3)
Change in tax rate	(5)	(0.6)	—	—
Movements in recognition of tax losses	—	—	5	0.7
Change in unrecognised temporary differences	—	—	2	0.3
Tax included in share of joint ventures and associate profits	3	0.4	7	1.0
Tax over provided in prior periods	(10)	(1.2)	(5)	(0.7)
Tax on undistributed reserves	4	0.5	—	—
<b>Total income tax expense in the Group Income Statement</b>	<b>100</b>	<b>12.0</b>	<b>100</b>	<b>14.3</b>

The tax rate for the year depends upon the mix of profits by country, particularly upon the high level of profits generated in North America, and the ability of the Group to recognise deferred tax assets in respect of losses in some of the Group's smaller territories.

## Income tax recognised directly in equity

Tax in relation to:

	2011 £m	2010 £m
Foreign exchange differences on long-term intra-Group currency loans	0.4	1.0
Gain/(loss) on financial instruments	0.3	(1.0)
Actuarial movement on retirement benefit obligations	0.8	1.7
Translation of biological assets, intangible assets and finance leases	(1.0)	7.9
Income tax on income and expense recognised directly in equity	0.5	9.6
Share-based payment expense	(0.5)	(0.5)
<b>Total income tax recognised directly in equity</b>	<b>—</b>	<b>9.1</b>

## 12. Dividends

Amounts recognised as distributions to equity holders in the year:

	2011 £m	2010 £m
Final dividend		
12.1 pence (2010: 11.0 pence) per share	7.2	6.5

A dividend of 13.3 pence per share has been proposed by the Directors for 2011. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and therefore has not been included as a liability in these financial statements.



### 13. Earnings per share

#### Basic earnings per share from continuing operations

The calculation of basic earnings per share from continuing operations for the year ended 30 June 2011 is based on the profit attributable to ordinary shareholders from continuing operations of £29.2m (2010: £27.5m) and a weighted average number of ordinary shares outstanding of 59,652,000 (2010: 59,385,000), calculated as follows:

#### Weighted average number of ordinary shares (basic)

	2011 000s	2010 000s
Issued ordinary shares at start of the year	59,678	59,525
Effect of own shares held	(214)	(254)
Shares issued on exercise of stock options	34	114
Shares issued in relation to EBT	154	–
<b>Weighted average number of ordinary shares in year</b>	<b>59,652</b>	<b>59,385</b>

#### Diluted earnings per share from continuing operations

The calculation of diluted earnings per share at 30 June 2011 is based on profit attributable to ordinary shareholders from continuing operations of £29.2m (2010: £27.5m) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 60,566,000 (2010: 60,163,000) calculated as follows:

#### Weighted average number of ordinary shares (diluted)

	2011 000s	2010 000s
Weighted average number of ordinary shares (basic)	59,652	59,385
Dilutive effect of share options	914	778
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per share</b>	<b>60,566</b>	<b>60,163</b>

#### Adjusted earnings per share

Adjusted earnings per share is calculated on profit before net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, share-based payment expense and exceptional items after charging taxation associated with those profits, of £26.7m (2010: £21.8m) as follows:

	2011 £m	2010 £m
<b>Profit before tax from continuing operations</b>	<b>40.8</b>	<b>40.8</b>
Add/(deduct):		
Net IAS 41 valuation movement on biological assets	(9.8)	(11.0)
Amortisation of acquired intangible assets	5.2	5.1
Share-based payment expense	3.2	1.6
Pension curtailment gain	(0.6)	(2.5)
Insurance settlement	(0.6)	–
Integration and restructuring credit	–	(0.3)
Net IAS 41 valuation movement on biological assets in joint ventures and associates	0.4	(1.8)
Tax on joint ventures and associates	0.4	1.0
<b>Adjusted profit before tax</b>	<b>39.0</b>	<b>32.9</b>
Adjusted tax charge	(12.3)	(11.1)
<b>Adjusted profit after taxation</b>	<b>26.7</b>	<b>21.8</b>
<b>Effective tax rate on adjusted profit</b>	<b>31.5%</b>	<b>33.7%</b>

# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 14. Intangible assets

	Porcine genetics technology £m	Multiplier contracts £m	Customer relation- ships £m	Separately identified acquired intangible assets £m	Software £m	Other £m	Total £m	Goodwill £m
<b>Cost</b>								
<b>Balance at 1 July 2009</b>	40.4	3.6	51.0	95.0	6.4	–	101.4	62.5
Additions	–	–	–	–	–	1.7	1.7	0.9
On acquisition	–	–	0.2	0.2	–	–	0.2	–
Effect of movements in exchange rates	–	0.1	5.2	5.3	0.2	–	5.5	5.0
<b>Balance at 30 June 2010</b>	40.4	3.7	56.4	100.5	6.6	1.7	108.8	68.4
Additions	–	–	–	–	–	1.1	1.1	–
On acquisition	–	–	–	–	–	0.2	0.2	–
Effect of movements in exchange rates	–	0.1	(2.2)	(2.1)	(0.1)	–	(2.2)	(0.1)
<b>Balance at 30 June 2011</b>	<b>40.4</b>	<b>3.8</b>	<b>54.2</b>	<b>98.4</b>	<b>6.5</b>	<b>3.0</b>	<b>107.9</b>	<b>68.3</b>
<b>Amortisation and impairment losses</b>								
<b>Balance at 1 July 2009</b>	7.2	0.8	11.6	19.6	0.7	–	20.3	–
Amortisation for the year	2.0	0.2	2.9	5.1	0.7	–	5.8	–
Effect of movements in exchange rates	–	–	1.2	1.2	–	–	1.2	–
<b>Balance at 30 June 2010</b>	9.2	1.0	15.7	25.9	1.4	–	27.3	–
Amortisation for the year	2.0	0.2	3.0	5.2	0.6	–	5.8	–
Effect of movements in exchange rates	–	–	(0.8)	(0.8)	–	–	(0.8)	–
<b>Balance at 30 June 2011</b>	<b>11.2</b>	<b>1.2</b>	<b>17.9</b>	<b>30.3</b>	<b>2.0</b>	<b>–</b>	<b>32.3</b>	<b>–</b>
<b>Carrying amounts</b>								
<b>At 30 June 2011</b>	<b>29.2</b>	<b>2.6</b>	<b>36.3</b>	<b>68.1</b>	<b>4.5</b>	<b>3.0</b>	<b>75.6</b>	<b>68.3</b>
<b>At 30 June 2010</b>	31.2	2.7	40.7	74.6	5.2	1.7	81.5	68.4
<b>At 30 June 2009</b>	33.2	2.8	39.4	75.4	5.7	–	81.1	62.5

Additions in the year to intangible assets include £1.1m relating to costs capitalised in respect of a development project and £0.2m relating to the acquisition of a bull stud in Russia.

### Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating segments which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each operating segment is as follows:

	2011 £m	2010 £m	2009 £m
North America	33.0	34.1	30.2
Latin America	16.8	15.9	14.2
Europe	11.3	11.1	11.2
Far East	7.2	7.3	6.9
	<b>68.3</b>	68.4	62.5

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash-generating units is determined from value in use calculations. The key assumptions for the value in use calculations of cash-generating units are those regarding discount rates, growth rates, expected changes to selling prices and direct costs. Management has estimated the discount rate using the Group's weighted average cost of capital ('WACC'), changes in selling prices and direct costs, which are based on past experience and expectations of future changes in the market.



The Group prepares cash flows derived from the most recent financial and strategic budgets approved by management for the next three years, and extrapolates cash flows using estimated growth rates beyond this period.

A growth rate of 4.0% (2010: 4.0%, 2009: 4.0%) has been used to extrapolate cash flows beyond the budget and strategic plan period.

The post-tax WACC of 8.0% (2010: 8.0%, 2009: 8.0%) has been applied to cash flow projections, which equates to a pre-tax rate of approximately 11.4% (2010: 11.4%, 2009: 11.4%). The discount rate has been risk adjusted for Latin America and the Far East, with an additional premium of 1% to 3% added to the WACC.

## 15. Biological assets

### Fair value of biological assets

	Bovine £m	Porcine £m	Total £m
Non-current biological assets	105.9	48.0	153.9
Current biological assets	–	28.0	28.0
<b>Balance at 30 June 2009</b>	<b>105.9</b>	<b>76.0</b>	<b>181.9</b>
Increases due to purchases	3.9	56.0	59.9
Decreases attributable to sales	–	(117.6)	(117.6)
Decrease due to harvest	(29.2)	(6.7)	(35.9)
Changes in fair value less estimated sale costs	39.9	66.8	106.7
Effect of movements in exchange rates	9.7	7.8	17.5
<b>Balance at 30 June 2010</b>	<b>130.2</b>	<b>82.3</b>	<b>212.5</b>
Non-current biological assets	130.2	45.3	175.5
Current biological assets	–	37.0	37.0
<b>Balance at 30 June 2010</b>	<b>130.2</b>	<b>82.3</b>	<b>212.5</b>
Increases due to purchases	5.2	69.4	74.6
Decreases attributable to sales	–	(124.4)	(124.4)
Decrease due to harvest	(26.1)	(7.2)	(33.3)
Changes in fair value less estimated sale costs	38.2	57.2	95.4
Effect of movements in exchange rates	(7.8)	(2.7)	(10.5)
<b>Balance at 30 June 2011</b>	<b>139.7</b>	<b>74.6</b>	<b>214.3</b>
Non-current biological assets	139.7	47.3	187.0
Current biological assets	–	27.3	27.3
<b>Balance at 30 June 2011</b>	<b>139.7</b>	<b>74.6</b>	<b>214.3</b>

Bovine biological assets include £1.6m (2010: £1.9m, 2009: £3.0m) representing the fair value of bulls owned by third parties but managed by the Group, net of expected future payments to such third parties and are therefore treated as assets held under finance leases.

There are no movements in the carrying value of the bovine biological assets in respect of sales or other changes during the year.

The current market determined post-tax rate used to discount expected future net cash flows from the sale of bull semen is the Group's weighted average cost of capital. This has been assessed as 8.0% (2010: 8.0%, 2009: 8.0%).

Decreases due to harvest represent the semen extracted from the biological assets. Inventories of such semen are shown as biological asset harvest in note 20.



# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 15. Biological assets *continued*

Porcine biological assets include £30.9m (2010: £32.4m, 2009: £36.7m) relating to the fair value of the retained interest in the genetics in respect of animals transferred to customers under royalty contracts. Total revenue in the period includes £64.4m (2010: £58.8m) in respect of these contracts comprising £12.2m (2010: £9.8m) on initial transfer of animals to customers and £52.2m (2010: £49.0m) in respect of royalties received. Decreases attributable to sales during the period of £124.4m (2010: £117.6m) include £30.2m (2010: £36.2m) in respect of the reduction in fair value of the retained interest in the genetics of animals sold under royalty contracts.

Included in increases due to purchases, the aggregate gain arising during the period on initial recognition of biological assets in respect of multiplier purchases was £22.0m (2010: £16.5m).

	Bovine £m	Porcine £m	Total £m
<b>Year ended 30 June 2011</b>			
Net IAS 41 valuation movement on biological assets*			
Changes in fair value of biological assets	38.2	57.2	95.4
Inventory transferred to cost of sales at fair value	(22.2)	(7.2)	(29.4)
Biological assets transferred to cost of sales at fair value	–	(56.2)	(56.2)
	<b>16.0</b>	<b>(6.2)</b>	<b>9.8</b>

	Bovine £m	Porcine £m	Total £m
<b>Year ended 30 June 2010</b>			
Net IAS 41 valuation movement on biological assets*			
Changes in fair value of biological assets	39.9	66.8	106.7
Inventory transferred to cost of sales at fair value	(25.9)	(6.7)	(32.6)
Biological assets transferred to cost of sales at fair value	–	(63.1)	(63.1)
	<b>14.0</b>	<b>(3.0)</b>	<b>11.0</b>

\* This represents the difference between operating profit prepared under IAS 41 and operating profit prepared under historic cost accounting, which forms part of the reconciliation to adjusted operating profit.

## Additional information

	2011	2010
<b>Bovine</b>		
<b>Quantities at period end</b>		
Number of marketable bulls in stud	<b>269</b>	201
Number of doses of semen in inventory – stud	<b>8.7m</b>	8.0m
Total number of bulls in development	<b>1,744</b>	1,790
Number of doses of semen in inventory from bulls in development	<b>1.7m</b>	1.5m
<b>Amounts during the year</b>		
Fair value of agricultural produce – semen, harvested during the period	<b>£26.1m</b>	£29.2m
<b>Porcine</b>		
<b>Quantities at period end</b>		
Number of pigs (own farms)	<b>127,572</b>	126,279
Number of pigs despatched on a royalty basis and valued at fair value	<b>43,515</b>	35,691
<b>Amounts during the year</b>		
Fair value of agricultural produce – semen, harvested during the period	<b>£7.2m</b>	£6.7m



## 16. Property, plant and equipment

	Land and buildings £m	Plant, motor vehicles and equipment £m	Total £m
<b>Cost or deemed cost</b>			
<b>Balance at 1 July 2009</b>	28.8	25.0	53.8
Additions	3.2	3.9	7.1
Classified as held for sale	(0.3)	–	(0.3)
Disposals	(0.3)	(1.3)	(1.6)
Effect of movements in exchange rates	3.9	2.7	6.6
<b>Balance at 30 June 2010</b>	35.3	30.3	65.6
Additions	0.9	3.4	4.3
Disposals	(1.1)	(1.3)	(2.4)
Effect of movements in exchange rates	(0.9)	(1.1)	(2.0)
<b>Balance at 30 June 2011</b>	<b>34.2</b>	<b>31.3</b>	<b>65.5</b>
<b>Depreciation and impairment losses</b>			
<b>Balance at 1 July 2009</b>	4.3	10.2	14.5
Depreciation for the year	1.9	3.5	5.4
Disposals	(0.1)	(0.9)	(1.0)
Effect of movements in exchange rates	1.4	1.9	3.3
<b>Balance at 30 June 2010</b>	7.5	14.7	22.2
Depreciation for the year	1.7	3.0	4.7
Disposals	(0.6)	(1.0)	(1.6)
Effect of movements in exchange rates	(0.2)	(0.4)	(0.6)
<b>Balance at 30 June 2011</b>	<b>8.4</b>	<b>16.3</b>	<b>24.7</b>
<b>Carrying amounts</b>			
<b>At 30 June 2011</b>	<b>25.8</b>	<b>15.0</b>	<b>40.8</b>
<b>At 30 June 2010</b>	27.8	15.6	43.4
<b>At 30 June 2009</b>	24.5	14.8	39.3

### Leased plant and machinery

At 30 June 2011 plant, motor vehicles and equipment included assets held under finance leases with a carrying value of £4.2m (2010: £4.4m, 2009: £4.0m). The associated depreciation charge for the year was £0.5m (2010: £0.6m, 2009: £0.7m).

## 17. Equity accounted investees

The Group's share of profit after tax in its equity accounted investees for the year was £2.3m (2010: £3.1m).

The carrying value of the investment is reconciled as follows:

	2011 £m	2010 £m	2009 £m
<b>Balance at 1 July</b>	<b>7.4</b>	5.3	4.7
Share of post-tax profits of joint ventures and associate retained	<b>2.3</b>	3.1	1.8
Dividends received	<b>(1.9)</b>	(1.1)	(2.1)
Effect of movements in exchange rates	<b>0.7</b>	0.1	0.9
<b>Balance at 30 June</b>	<b>8.5</b>	7.4	5.3

# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 17. Equity accounted investees *continued*

Summary financial information for equity accounted investees, adjusted for the percentage ownership held by the Group:

### Year ended 30 June 2011

	Ownership	Current assets £m	Non-current assets £m	Biological assets £m	Total assets £m	Current liabilities £m	Total liabilities £m	Net assets £m
<b>Net assets</b>								
Agrocères – PIC Suínos (Brazil)	49%	3.5	3.0	2.7	9.2	(1.3)	(1.3)	7.9
Hybridschweine Cooperations GmbH (Germany)	50%	0.2	–	–	0.2	–	–	0.2
Hu Mei Pig Improvement Company Ltd (China)	50%	0.4	–	–	0.4	–	–	0.4
		<b>4.1</b>	<b>3.0</b>	<b>2.7</b>	<b>9.8</b>	<b>(1.3)</b>	<b>(1.3)</b>	<b>8.5</b>

	Ownership	Revenue £m	Net IAS 41 valuation movement on biological assets £m	Expenses £m	Operating profit £m	Taxation £m	Profit after tax £m
<b>Income statement</b>							
Agrocères – PIC Suínos (Brazil)	49%	11.5	(0.4)	(8.6)	2.5	(0.4)	2.1
Hybridschweine Cooperations GmbH (Germany)	50%	7.8	–	(7.8)	–	–	–
Hu Mei Pig Improvement Company Ltd (China)	50%	2.2	–	(2.0)	0.2	–	0.2
		<b>21.5</b>	<b>(0.4)</b>	<b>(18.4)</b>	<b>2.7</b>	<b>(0.4)</b>	<b>2.3</b>

### Year ended 30 June 2010

	Ownership	Current assets £m	Non-current assets £m	Biological assets £m	Total assets £m	Current liabilities £m	Total liabilities £m	Net assets £m
<b>Net assets</b>								
Agrocères – PIC Suínos (Brazil)	49%	2.8	2.6	2.9	8.3	(1.2)	(1.2)	7.1
Hybridschweine Cooperations GmbH (Germany)	50%	0.1	–	–	0.1	(0.1)	(0.1)	–
Hu Mei Pig Improvement Company Ltd (China)	50%	0.4	–	–	0.4	(0.1)	(0.1)	0.3
		<b>3.3</b>	<b>2.6</b>	<b>2.9</b>	<b>8.8</b>	<b>(1.4)</b>	<b>(1.4)</b>	<b>7.4</b>

	Ownership	Revenue £m	Net IAS 41 valuation movement on biological assets £m	Expenses £m	Operating profit £m	Taxation £m	Profit after tax £m
<b>Income statement</b>							
Agrocères – PIC Suínos (Brazil)	49%	9.3	1.8	(7.2)	3.9	(1.0)	2.9
Hybridschweine Cooperations GmbH (Germany)	50%	8.4	–	(8.3)	0.1	–	0.1
Hu Mei Pig Improvement Company Ltd (China)	50%	1.6	–	(1.5)	0.1	–	0.1
		<b>19.3</b>	<b>1.8</b>	<b>(17.0)</b>	<b>4.1</b>	<b>(1.0)</b>	<b>3.1</b>

## Year ended 30 June 2009

	Ownership	Current assets £m	Non-current assets £m	Biological assets £m	Total assets £m	Current liabilities £m	Total liabilities £m	Net assets £m
<b>Net assets</b>								
Agrocères – PIC Suinos (Brazil)	49%	2.0	2.2	1.8	6.0	(1.1)	(1.1)	4.9
Hybridschweine Cooperations GmbH (Germany)	50%	0.1	–	–	0.1	–	–	0.1
Hu Mei Pig Improvement Company Ltd (China)	50%	0.2	0.4	–	0.6	(0.3)	(0.3)	0.3
		2.3	2.6	1.8	6.7	(1.4)	(1.4)	5.3

	Ownership	Revenue £m	Net IAS 41 valuation movement on biological assets £m	Expenses £m	Operating profit £m	Taxation £m	Profit after tax £m
<b>Income statement</b>							
Agrocères – PIC Suinos (Brazil)	49%	9.3	(0.1)	(7.3)	1.9	(0.3)	1.6
Hybridschweine Cooperations GmbH (Germany)	50%	7.0	–	(6.9)	0.1	–	0.1
Hu Mei Pig Improvement Company Ltd (China)	50%	1.6	–	(1.5)	0.1	–	0.1
		17.9	(0.1)	(15.7)	2.1	(0.3)	1.8

## 18. Available for sale investments

	2011 £m	2010 £m	2009 £m
Fair value	0.2	0.3	0.3

Available for sale investments are in respect of unlisted trade related investments.

## 19. Deferred tax assets and liabilities

## Unrecognised deferred tax assets and liabilities

At the balance sheet date, the Group has unused tax losses with a potential tax benefit of £13.4m (2010: £14.1m, 2009: £13.7m) available for offset against future profits. A deferred tax asset has been recognised in respect of £2.3m (2010: £2.1m, 2009: £3.3m) of such losses. No deferred tax asset has been recognised in respect of the remaining £11.1m (2010: £12.0m, 2009: £10.4m) due to the uncertainty over the availability of future taxable profits.

Deferred tax liabilities totalling £3.2m (2010: £3.6m, 2009: £2.8m) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain overseas subsidiaries. No provision is required since the Group is in a position to control the timing and reversal of these differences and it is probable that such differences will not reverse in the foreseeable future.

## Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net		
	2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m
Property, plant and equipment	(0.3)	3.0	0.4	5.9	0.7	0.8	5.6	3.7	1.2
Intangible assets	(1.1)	(2.5)	(3.2)	24.2	27.1	27.4	23.1	24.6	24.2
Biological assets	–	–	–	76.0	73.7	63.3	76.0	73.7	63.3
Financial instruments	(0.1)	(0.4)	(0.7)	–	–	–	(0.1)	(0.4)	(0.7)
Retirement benefit obligations	(4.3)	(7.9)	(10.2)	(1.8)	–	0.1	(6.1)	(7.9)	(10.1)
Share-based payments	(1.6)	(0.7)	(0.5)	–	–	–	(1.6)	(0.7)	(0.5)
Short-term timing differences	(5.9)	(6.9)	(4.7)	0.6	2.1	2.2	(5.3)	(4.8)	(2.5)
Tax loss carry-forwards	(2.3)	(2.1)	(3.2)	–	–	(0.1)	(2.3)	(2.1)	(3.3)
Net tax (assets)/liabilities	(15.6)	(17.5)	(22.1)	104.9	103.6	93.7	89.3	86.1	71.6

Deferred tax assets and liabilities have been offset above to the extent that they arise in the same tax jurisdiction.





# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 19. Deferred tax assets and liabilities *continued*

### Movement in net deferred tax liabilities during the year

	Balance brought forward 1 July 2010 £m	Recognised in income statement £m	Prior year adjustments £m	Recognised in equity £m	Foreign exchange difference £m	Balance carried forward 30 June 2011 £m
Property, plant and equipment	3.7	1.7	0.5	–	(0.3)	<b>5.6</b>
Intangible assets	24.6	(1.6)	–	(0.1)	0.2	<b>23.1</b>
Biological assets	73.7	3.0	–	(0.7)	–	<b>76.0</b>
Financial instruments	(0.4)	–	–	0.3	–	<b>(0.1)</b>
Retirement benefit obligations	(7.9)	0.9	–	0.8	0.1	<b>(6.1)</b>
Share-based payments	(0.7)	(0.3)	(0.2)	(0.4)	–	<b>(1.6)</b>
Short-term timing differences	(4.8)	(0.4)	(0.1)	(0.1)	0.1	<b>(5.3)</b>
Tax loss carry-forwards	(2.1)	0.1	–	–	(0.3)	<b>(2.3)</b>
	86.1	3.4	0.2	(0.2)	(0.2)	<b>89.3</b>

	Balance brought forward 1 July 2009 £m	Recognised in income statement £m	Prior year adjustments £m	Recognised in equity £m	Changes in tax rate £m	Foreign exchange difference £m	Balance carried forward 30 June 2010 £m
Property, plant and equipment	1.2	2.0	0.5	–	–	–	3.7
Intangible assets	24.2	(0.5)	–	0.4	–	0.5	24.6
Biological assets	63.3	3.6	–	6.8	–	–	73.7
Financial instruments	(0.7)	–	0.2	0.1	–	–	(0.4)
Retirement benefit obligations	(10.1)	1.0	(0.5)	1.7	–	–	(7.9)
Share-based payments	(0.5)	–	–	(0.2)	–	–	(0.7)
Short-term timing differences	(2.5)	(1.3)	(0.1)	(0.1)	(0.8)	–	(4.8)
Tax loss carry-forwards	(3.3)	1.4	–	–	–	(0.2)	(2.1)
	71.6	6.2	0.1	8.7	(0.8)	0.3	86.1

## 20. Inventories

	2011 £m	2010 £m	2009 £m
Biological assets harvest classed as inventories	<b>24.5</b>	23.2	20.9
Raw materials and consumables	<b>0.7</b>	0.6	0.5
Goods held for resale	<b>8.3</b>	7.3	6.6
	<b>33.5</b>	31.1	28.0

## 21. Trade and other receivables

	2011 £m	2010 £m	2009 £m
Trade receivables	<b>56.2</b>	52.4	46.1
Other debtors	<b>3.8</b>	4.0	4.8
Prepayments and accrued income	<b>2.5</b>	1.7	2.2
Other taxes and social security	<b>2.5</b>	2.1	0.6
	<b>65.0</b>	60.2	53.7

### Trade receivables

The average credit period taken on the sales of goods is 65 days (2010: 67 days, 2009: 59 days). No interest is charged on receivables for the first 30 days from the date of the invoice. The Group provides for all receivables based upon knowledge of the customer and historical experience and estimates irrecoverable amounts by reference to past default experience.

There are no customers who represent more than 5% of the total balance of trade receivables.

At 30 June 2011, £40.7m (2010: £35.6m, 2009: £30.8m) of trade receivables were not yet due for payment.



Included in the Group's trade receivables balance are debtors with a carrying amount of £15.8m (2010: £16.8m, 2009: £15.3m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 60 days (2010: 69 days, 2009: 65 days).

Ageing of trade receivables that are past due and presented net of provisions that have been established:

	2011 £m	2010 £m	2009 £m
0 – 30 days	7.6	7.1	7.2
31 – 90 days	5.1	5.3	4.7
91 – 180 days	1.8	2.6	1.5
Over 180 days	1.3	1.8	1.9
	<b>15.8</b>	16.8	15.3

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. At 30 June 2011 trade receivables are shown net of an allowance for doubtful debts of £3.5m (2010: £3.3m, 2009: £3.1m).

#### Movement in the allowance for doubtful debts

	2011 £m	2010 £m	2009 £m
Balance at the beginning of the year	3.3	3.1	2.6
Impairment losses recognised	1.6	1.5	0.9
Amounts written off as uncollectible	(0.7)	(1.1)	(0.5)
Impairment losses reversed	(0.8)	(0.4)	–
Effect of movements in exchange rates	0.1	0.2	0.1
Balance at the end of the year	<b>3.5</b>	3.3	3.1

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of expected proceeds. The Group does not hold any collateral over these balances.

Receivables denominated in currencies other than Sterling comprise £11.9m of receivables denominated in US Dollar (2010: £15.6m, 2009: £11.6m), £11.0m of receivables denominated in Euros (2010: £7.4m, 2009: £9.1m) and £29.1m of receivables denominated in other currencies (2010: £17.0m, 2009: £21.0m).

## 22. Cash and cash equivalents

	2011 £m	2010 £m	2009 £m
Bank balances	<b>18.3</b>	18.1	20.6

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Included with the bank balances is £4.1m (2010: £3.6m, 2009: £3.4m) held in China for future investment but subject to certain local restrictions.

# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 23. Trade and other payables

	2011 £m	2010 £m	2009 £m
Trade payables	<b>12.9</b>	13.1	11.9
Other payables and accrued expenses	<b>28.8</b>	24.7	24.0
Other taxes and social security	<b>5.6</b>	4.5	3.1
	<b>47.3</b>	42.3	39.0

Payables denominated in currencies other than Sterling comprise £9.4m of payables denominated in US Dollar (2010: £10.6m, 2009: £9.9m), £9.6m of payables denominated in Euros (2010: £7.0m, 2009: £6.6m) and £18.2m of payables denominated in other currencies (2010: £11.0m, 2009: £10.1m). The carrying values of these liabilities are a reasonable approximation of their fair values.

## 24. Provisions

		Onerous property leases £m
Balance at 30 June 2009		2.0
Utilisation of provision		(0.3)
Unwinding of discount		0.1
Balance at 30 June 2010		1.8
Utilisation of provision		(0.5)
Unwinding of discount		0.1
<b>Balance at 30 June 2011</b>		<b>1.4</b>

	2011 £m	2010 £m	2009 £m
Non-current	<b>1.2</b>	1.4	1.8
Current	<b>0.2</b>	0.4	0.2
<b>Balance at 30 June</b>	<b>1.4</b>	1.8	2.0

The onerous property provision represents the discounted future costs of properties not occupied by the Group. These costs are computed net of risk weighted rental income and, where necessary, dilapidation and letting expenses and the provision is expected to be utilised over the next four years.

## 25. Financial instruments

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 26, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 30.

### Gearing ratio

The Group keeps its capital structure under review. The gearing ratio at the year end is as follows:

	2011 £m	2010 £m	2009 £m
Debt	<b>86.2</b>	98.1	108.6
Cash and cash equivalents	<b>(18.3)</b>	(18.1)	(20.6)
Net debt	<b>67.9</b>	80.0	88.0
Equity	<b>271.9</b>	251.8	204.6
Net debt to equity ratio	<b>25%</b>	32%	43%

Debt is defined as long and short-term borrowings, as detailed in note 26.

Equity includes all capital and reserves of the Group attributable to equity holders of the parent.



### Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

For those financial instruments held at valuation, the Group has categorised them into a three level fair value hierarchy based on the priority of the inputs to the valuation technique in accordance with IFRS 7. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety. The fair values of the Group's outstanding interest rate swaps have been estimated by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 7. There are no financial instruments which have been categorised as Level 1 or Level 3.

### Categories of financial instruments

	Carrying value		
	2011 £m	2010 £m	2009 £m
<b>Financial assets</b>			
Trade receivables	56.2	52.4	46.1
Derivative instruments in designated hedge accounting relationships	–	0.9	1.7
Cash and cash equivalents	18.3	18.1	20.6
<b>Financial liabilities</b>			
Trade payables	12.9	13.1	11.9
Derivative instruments in designated hedge accounting relationships	(0.6)	(12.5)	(9.8)
Loans and overdrafts	(84.5)	(96.2)	(106.6)
Leasing obligations	(1.7)	(1.9)	(1.9)

### Financial risk management objectives

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

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Board of Directors regularly. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

### Financial risk

The principal financial risks to which the Group is exposed through its activities are risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the sale of goods in foreign currency and on the purchase of supplies in foreign currencies;
- interest rate swaps to mitigate the risk of rising interest rates; and
- cross currency swap contracts to hedge the exchange rate risk arising on translation of the Group's investment in foreign operations.





# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 25. Financial instruments *continued*

### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Any exposures to exchange rate fluctuations which arise are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities			Assets		
	2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m
US Dollar (including leases)	(70.2)	(42.0)	(45.1)	5.6	0.6	2.8
Euro	(5.4)	(9.8)	(10.2)	1.2	2.6	2.8

### Foreign currency sensitivity analysis

The Group is mainly exposed to movement in the US Dollar and the Euro exchange rates.

The following table details the Group's sensitivity to a 10% increase and decrease in the Sterling against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a significant change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where Sterling weakens against the relevant currency. For a strengthening of the Sterling against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative. The impact on other equity is minimal due to the net investment hedging in place.

	Euro currency impact			US Dollar currency impact		
	2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m
<b>10% currency movement</b>						
Profit or loss	0.6	0.6	0.6	2.2	2.0	1.9

### Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts.

The following table details the forward foreign currency contracts outstanding as at the year end:

	Average exchange rate 2011	Foreign currency 2011	Contract value			Fair value		
			2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m
Outstanding contracts								
Buy Czech Koruna	29.38	CZK	–	2.0	2.0	–	–	–
Buy Romanian Leu	4.59	RON	(0.5)	0.6	–	–	–	–
Sell Chilean Peso	475.1	CLP	0.3	1.1	–	–	–	–
Sell Renminbi	10.605	CNY	0.9	0.8	–	–	–	–
Sell Polish Zloty	4.61	PLN	0.5	0.4	–	–	–	–
Sell Euro/buy USD	1.37	EUR	0.2	–	–	–	–	–
Sell Euro/buy USD	1.42	EUR	0.4	–	–	–	–	–
Buy USD/sell ARS	4.13	USD	(0.2)	–	–	–	–	–
Sell USD/buy MXN	11.7	USD	2.3	–	–	–	–	–
Sell Euro/buy USD	1.43	EUR	0.4	–	–	–	–	–
Buy USD/sell Euro	1.44	USD	(0.2)	–	–	–	–	–
Buy USD/sell Brazilian Real	1.59	USD	(0.9)	–	–	–	–	–
Net investment hedge – currency swap								
Sell US Dollar	1.4963	USD	–	35.0	35.0	–	(9.6)	(5.7)
						–	(9.6)	(5.7)



### Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed centrally by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, using interest rate swap agreements. Hedging activities are reviewed regularly to align with interest rate views and defined risk appetite, thereby ensuring optimal hedging strategies are applied, to minimise the adverse impact of fluctuations in interest expense through different interest rate cycles.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1.0% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a significant change in interest rates.

If interest rates had been 1.0% higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2011 would decrease/increase by £0.3m (2010: decrease/increase by £0.2m). This small impact is attributable to the Group's high level of fixed rate borrowing.

### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

### Cash flow hedges

#### Interest rate swaps ('IRS')

Outstanding receive floating pay fixed contracts	Average contract fixed interest rate			Notional principal amount			Fair value		
	2011 %	2010 %	2009 %	2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m
<b>GBP IRS</b>									
Within one year	<b>2.17</b>	4.74	–	<b>10.0</b>	20.0	–	<b>(0.1)</b>	(0.5)	–
Two to five years	–	–	4.74	–	–	35.0	–	–	(1.2)
Two to five years	–	2.17	2.17	–	10.0	10.0	–	(0.3)	0.1
<b>USD IRS</b>									
Within one year	<b>3.18</b>	3.19	–	<b>12.5</b>	26.7	–	<b>(0.3)</b>	(0.5)	–
Two to five years	<b>1.40</b>	3.18	3.20	<b>43.6</b>	13.4	36.4	<b>(0.2)</b>	(0.6)	(1.3)
<b>EUR IRS</b>									
Within one year	<b>1.91</b>	–	–	<b>5.4</b>	–	–	–	–	–
Two to five years	–	1.91	1.91	–	9.8	10.2	–	(0.2)	–
				<b>71.5</b>	79.9	91.6	<b>(0.6)</b>	(2.1)	(2.4)

The interest rate swaps settle on a quarterly or a monthly basis. The corresponding floating rate on the interest rate swaps is three month LIBOR or one month LIBOR. The Group settles the difference between the fixed and floating interest rate on a net basis.

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating rate interest payments on debt impact profit or loss.



# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 25. Financial instruments *continued*

### Commodity hedges

The Group hedges the pig slaughter price of its by-product animals by using the Chicago Mercantile Exchange ('CME') lean hog futures.

	Average price		Notional principal amount		Fair value	
	2011 US\$	2010 US\$	2011 £m	2010 £m	2011 £m	2010 £m
Commodity hedge						
Open contracts from July 2010 to June 2011	0.898	–	0.7	–	–	–

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are regularly monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure on financial instruments is controlled by counterparty limits that are reviewed and approved by the Board annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month £m	1–3 months £m	3 months to 1 year £m	1–5 years £m	5+ years £m	Total £m
<b>2011</b>							
Variable interest rate instruments	2.5	1.4	0.5	5.6	87.1	–	94.6
<b>2010</b>							
Variable interest rate instruments	3.5	3.1	0.7	3.7	97.9	–	105.4
<b>2009</b>							
Variable interest rate instruments	3.5	3.8	0.7	4.1	113.5	–	122.1

The following table details the Group's expected maturity for other non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month £m	1–3 months £m	3 months to 1 year £m	1–5 years £m	5+ years £m	Total £m
<b>2011</b>							
Variable interest rate instruments	1.2	16.1	2.2	–	–	–	18.3
<b>2010</b>							
Variable interest rate instruments	1.2	15.8	2.3	–	–	–	18.1
<b>2009</b>							
Variable interest rate instruments	1.7	18.6	2.0	–	–	–	20.6



The Group has access to financing facilities, the total unused amount of which is £51.2m (2010: £53.6m, 2009: £44.1m) at the balance sheet date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The Group expects to reduce the current debt to equity ratio as the level of borrowings decreases through repayment from operating cash flows.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates as illustrated by the yield curves existing at the reporting date.

	Less than 1 month £m	1–3 months £m	3 months to 1 year £m	1–5 years £m	5+ years £m	Total £m
<b>2011</b>						
Interest rate swaps	–	(0.2)	(0.4)	–	–	(0.6)
<b>2010</b>						
Interest rate swaps	(0.4)	(0.3)	(1.4)	(0.3)	–	(2.4)
<b>2009</b>						
Interest rate swaps	(0.1)	(0.1)	(1.8)	(3.0)	–	(5.0)

## 26. Loans and borrowings

	2011 £m	2010 £m	2009 £m
<b>Non-current liabilities</b>			
Unsecured bank loans	80.5	0.7	0.6
Secured bank loans	–	93.9	103.6
Obligations under finance leases	0.8	1.0	1.0
	81.3	95.6	105.2
<b>Current liabilities</b>			
Unsecured bank loans and overdrafts	4.0	0.3	0.5
Secured bank loans and overdrafts	–	1.3	2.0
Obligations under finance leases	0.9	0.9	0.9
	4.9	2.5	3.4
<b>Total interest-bearing liabilities</b>	86.2	98.1	108.6

## Terms and debt repayment schedule

Terms and conditions of outstanding loans and overdrafts were as follows:

	Currency	Interest rate	2011 £m	2010 £m	2009 £m
Revolving credit facility and overdraft	GBP	2.0%	9.8	45.3	52.9
Revolving credit facility and term loan and overdraft	USD	1.6%	68.5	40.1	42.5
Revolving credit facility and overdraft	EUR	2.7%	5.4	9.8	10.2
Finance lease liabilities	USD	5.0%	1.7	1.9	1.9
Unsecured bank borrowings	Other	0%	0.8	1.0	1.1
<b>Total interest-bearing liabilities</b>			86.2	98.1	108.6

The above revolving credit facilities were secured in 2009 and 2010 but following a refinancing in March 2011 are now unsecured.

Information about the Group's exposure to interest rate and foreign currency risk is shown in note 25.





# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 26. Loans and borrowings *continued*

	2011 £m	2010 £m	2009 £m
<b>Loans and borrowings (excluding finance leases) comprise amounts falling due:</b>			
In one year or less or on demand	4.6	3.2	3.9
In more than one year but not more than two years	6.3	94.0	0.1
In more than two years but not more than five years	75.2	0.6	105.8
	86.1	97.8	109.8
Less: unamortised issue costs	(1.6)	(1.6)	(3.1)
	84.5	96.2	106.7
<b>Current liabilities</b>	<b>(4.0)</b>	<b>(1.6)</b>	<b>(2.5)</b>
<b>Non-current liabilities</b>	<b>80.5</b>	<b>94.6</b>	<b>104.2</b>

The Company has refinanced its bank credit facilities with a group of five lending banks in March 2011. The credit facilities comprise a £65m multi-currency revolving credit facility, a US\$60m revolving credit and a US\$50m term loan being repayable on 30 September 2015.

As part of its interest rate strategy the Company has entered into interest rate swaps to hedge floating LIBOR rates. As a result bank loan and overdrafts include £10.0m fixed at 2.17%, US\$70m (£43.6m) fixed at 1.40%, and €6m (£5.4m) fixed at 1.91%. All indicated rates are exclusive of applicable bank margin.

Also included in the above are unsecured loans of £0.4m (2010: £0.4m) for an agricultural development loan in the USA and a £0.4m (2010: £0.4m) loan in Spain. Both of these loans are interest free.

## 27. Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2011 £m	Interest 2011 £m	Principal 2011 £m	Minimum lease payments 2010 £m	Interest 2010 £m	Principal 2010 £m	Minimum lease payments 2009 £m	Interest 2009 £m	Principal 2009 £m
Less than one year	0.9	–	0.9	0.9	–	0.9	0.9	–	0.9
Between one to five years	0.9	0.1	0.8	1.1	0.1	1.0	1.1	0.1	1.0
	1.8	0.1	1.7	2.0	0.1	1.9	2.0	0.1	1.9

Finance lease liabilities are secured over the assets to which they relate.

## 28. Retirement benefit obligations

The Group has a number of defined contribution and defined benefit pension schemes covering many of its employees. The principal funds are those in the United Kingdom, the Milk Pension Fund and the Dalgety Pension Fund, which are defined benefit schemes. The assets of these funds are held separately from the assets of the Group and administered by trustees and managed professionally. These schemes are closed to new members.

The financial position of the defined benefit schemes as recorded in accordance with IAS 19 are aggregated for disclosure purposes. The liability split by principal scheme is set out below.

	2011 £m	2010 £m	2009 £m
The Milk Pension Fund – Genus' share	14.3	20.3	27.7
The Dalgety Pension Fund	1.5	–	–
Other retirement benefit obligations	7.8	8.5	7.7
<b>Gross liability</b>	<b>23.6</b>	<b>28.8</b>	<b>35.4</b>
Deferred taxation	(6.1)	(8.5)	(10.1)
<b>Net liability</b>	<b>17.5</b>	<b>20.3</b>	<b>25.3</b>

Overall, the Group expects to pay £2.8m in contributions to defined benefit plans in the 2011/12 financial year.



### The Milk Pension Fund ('MPF')

The Milk Pension Fund is that previously operated by the Milk Marketing Board, and was also open to membership of staff working for Milk Marque Ltd (the principal employer now known as Community Foods Group Limited), National Milk Records plc, First Milk Ltd, hauliers associated to First Milk Ltd, Dairy Farmers of Britain Ltd (which went into receivership in June 2009) and Milk Link Ltd. Genus only accounts for its section and its share of any orphan liabilities but discloses details regarding the full potential contingent liability below, as ultimate liabilities are joint and several.

The most recent actuarial valuation of the Milk Pension Fund was at 31 March 2009. The valuation of the fund used the projected unit method (for future service, a control period of three years was used) and was carried out by professionally qualified actuaries.

The principal actuarial assumptions adopted in the 2009 valuation were that investment returns on existing assets would be 8.2% per annum before retirement and 5.4% per annum after retirement, that pay increases would average 4.3% per annum and that the annual increase in pensions in payment would be 3.2% per annum.

Due to the adverse economic conditions that existed at the 31 March 2009, the funding valuation was updated at 31 March 2010. At 31 March 2010, the market value of the fund's assets amounted to £312m. The value of those assets represents approximately 90% of the value of the uninsured liabilities which were £347m at 31 March 2010, after allowing for expected future increases in earnings.

The deficit in the fund as a whole, by reference to the 31 March 2010 valuation, was £35m (of which Genus' notional share was £13.1m) and this shortfall is being addressed by additional contributions from the participating employers. Under the new funding agreement, the Company has agreed to make deficit repair contributions of £1.5m per annum until 31 March 2022.

With effect from 31 May 2010, the majority of the Genus' active members ceased accruing benefits in the fund and became deferred pensioners. This event resulted in a curtailment gain of £2.5m, which was recognised in the prior year as an exceptional item in the income statement.

The Group's pension cost for the scheme in 2011 is £0.1m (2010: £0.7m).

### Dalgety Pension Fund

The most recent actuarial valuation of the Dalgety Pension Fund was at 31 March 2009. The valuation of the scheme used the projected unit method and was carried out by professionally qualified actuaries.

The principal actuarial assumptions adopted in the 2009 valuation were that investment returns on existing assets would be 6.6% per annum before retirement and 4.1% per annum after retirement, that pay increases would average 4.3% per annum and that the annual increase in pensions in payment would be 3.2% per annum.

The market value of the available assets at 31 March 2009 was £14.5m. The value of those assets represents approximately 91% of the value of the uninsured liabilities which were £16.0m at 31 March 2009, after allowing for expected future increases in earnings.

Under the new funding agreement, the Company has agreed to make deficit repair contributions of £0.3m per annum until 30 September 2018.

The disclosures required under IAS 19 have been calculated by an independent actuary based on accurate calculations carried out as at 31 March 2009 updated to 30 June 2011. Under the projected unit method the current service cost will increase as the members approach retirement.

There is a £2.7m reserve held by Trustees against future unknown liabilities materialising. As the economic benefit to the Company of this amount is not certain, it is treated as a contingent asset.

With effect from 30 November 2010, the majority of the Genus' active members ceased accruing benefits in the fund and became deferred pensioners. This event resulted in a curtailment gain of £0.7m, which has been recognised during the year as an exceptional item in the income statement, net of legal costs.

The Group's pension cost for the scheme in 2011 is £0.1m (2010: £0.2m).



# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 28. Retirement benefit obligations *continued*

### Other defined benefit scheme in deficit:

The Group also operates a closed defined benefit scheme for a small number of former employees of the National Pig Development Company Limited. The total market value of scheme assets and liabilities at 30 June 2011 under the provisions of IAS 19 were £3.7m (2010: £3.3m, 2009: £2.8m) and £4.7m (2010: £4.6m, 2009: £4.1m), respectively.

### Other unfunded schemes

On the acquisition of Sygen International plc, the Group acquired three unfunded defined benefit schemes and an unfunded retirement health benefit plan, which it now operates for the benefit of the previous group's senior employees and executives.

For the three unfunded defined benefit schemes, based on the methods and assumptions of IAS 19 the scheme liabilities amount to £5.5m (2010: £5.7m, 2009: £5.0m) and this amount is included within pension liabilities in the Group's balance sheet. The current cost charged to operating profit in the year to 30 June 2011 amounted to £nil (2010: £nil, 2009: £nil) and the interest on pension scheme liabilities amounted to £0.3m (2010: £0.3m, 2009: £0.3m).

The principal assumptions used to calculate the scheme liabilities were that the discount rate would be 5.7% (2010: 5.5%, 2009: 6.0%), that pay increases would average nil% per annum (2010: nil%, 2009: nil%) and that inflation and pension payments would be 3.6% per annum (2010: 3.1%, 2009: 3.2%).

For the unfunded retirement health benefit plan, based on the methods and assumptions of IAS 19, scheme liabilities amount to £1.3m (2010: £1.4m, 2009: £1.3m) and this amount is included within retirement benefit obligations in the Group's balance sheet. The current cost charged to operating profit in the year to 30 June 2011 amounted to £nil (2010: £nil) and the interest on plan liabilities amounted to £0.1m (2010: £0.1m).

The principal assumptions used to calculate the plan liabilities were that the discount rate would be 5.7% (2010: 5.5%, 2009: 6.0%) and that the long-term rate of medical expense inflation would be 7.6% (2010: 7.1%, 2009: 7.4%).

### Aggregated position of defined benefit schemes

	2011 £m	2010 £m	2009 £m
Present value of funded obligations (includes Genus' section only for MPF)	156.2	150.0	139.7
Present value of unfunded obligations	6.8	7.1	6.3
Total present value of obligations	163.0	157.1	146.0
Fair value of plan assets (includes Genus' section only for MPF)	(146.4)	(130.9)	(112.0)
Restrict recognition of asset and recognition of additional liability	7.0	2.6	1.4
Recognised liability for defined benefit obligations	23.6	28.8	35.4

Plan assets consist of the following:

	2011 £m	2010 £m	2009 £m
Equities	91.9	77.2	51.4
Gilts and corporate bonds	45.4	47.1	58.6
Cash	0.5	1.0	2.0
Other	8.6	5.6	–
	146.4	130.9	112.0

### Movement in the liability for defined benefit obligations

	2011 £m	2010 £m	2009 £m
Liability for defined benefit obligations at the start of the year	157.1	146.0	144.5
Benefits paid by the plans	(6.7)	(6.4)	(7.6)
Current service costs and interest	8.6	9.5	9.9
Actuarial losses/(gains) recognised in equity	4.9	9.4	(2.4)
Gains on curtailments and settlements	(0.7)	(2.5)	–
Contributions by scheme members	0.1	0.7	0.8
Exchange rate adjustment	(0.3)	0.4	0.8
Liability for defined benefit obligations at the end of year	163.0	157.1	146.0

**Movement in plan assets**

	2011 £m	2010 £m	2009 £m
Fair value of plan assets at the start of the year	<b>130.9</b>	112.0	126.1
Contributions paid into the plans	<b>3.4</b>	2.6	2.8
Benefits paid by the plans	<b>(6.7)</b>	(6.4)	(7.6)
Expected return on plan assets	<b>8.6</b>	6.9	8.1
Actuarial gains/(losses) recognised in equity	<b>10.2</b>	15.8	(17.4)
Fair value of plan assets at the end of the year	<b>146.4</b>	130.9	112.0

**Amounts recognised in the Group Income Statement**

	2011 £m	2010 £m	2009 £m
Current service costs	<b>0.2</b>	0.9	0.9
Interest obligation	<b>8.4</b>	8.6	9.0
Expected return on plan assets	<b>(8.6)</b>	(6.9)	(8.1)
Gains on curtailments and settlements	<b>(0.6)</b>	(2.5)	–
	<b>(0.6)</b>	0.1	1.8

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

	2011 £m	2010 £m	2009 £m
Administrative expenses	<b>0.2</b>	0.9	0.9
Exceptional item – curtailment gain in administrative expenses	<b>(0.6)</b>	(2.5)	–
Finance (income)/costs	<b>(0.2)</b>	1.7	0.9
	<b>(0.6)</b>	0.1	1.8

**Actuarial gains and losses recognised directly in equity**

	2011 £m	2010 £m	2009 £m
Cumulative loss at the start of the year	<b>16.3</b>	21.1	5.3
Actuarial (gain)/loss recognised during the year	<b>(0.9)</b>	(5.2)	15.0
Exchange rate adjustment	<b>(0.3)</b>	0.4	0.8
Cumulative loss at the end of the year	<b>15.1</b>	16.3	21.1

**Actuarial assumptions and sensitivity analysis**

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2011	2010	2009
Discount rate	<b>5.7%</b>	5.5%	6.0%
Expected return on plan assets	<b>7.2%</b>	6.9%	6.6%
Future salary increases	<b>4.6%</b>	4.1%	3.8%
Medical cost trend rate	<b>7.6%</b>	7.1%	7.4%
Future pension increases	<b>3.6%</b>	3.1%	2.8%

The mortality assumptions used are consistent with those recommended by the schemes' actuaries and reflect the latest available tables, adjusted for the experience of the scheme where appropriate. As in 2010, the mortality tables used are the SN1A tables, with birth year and medium cohort projections, with mortality rates increased by 25% at all ages (2009: PxA00 tables, with birth year and medium cohort projections, with mortality rates increased by 25% at all ages).

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

		2011 (years)	2010 (years)	2009 (years)
Retiring at balance sheet date at age 65:	Male	<b>21.8</b>	21.6	20.8
	Female	<b>24.0</b>	24.0	23.4
Retiring at age 65 in 20 years' time:	Male	<b>24.7</b>	24.5	23.7
	Female	<b>27.0</b>	27.0	26.2

# Notes to the Group Financial Statements *continued*

## For the year ended 30 June 2011

### 28. Retirement benefit obligations *continued*

The overall expected long-term rate of return on assets is 7.2% (2010: 6.9%, 2009: 6.6%). The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The amount the deficit varies if the main financial assumption changes, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 deficit would decrease/increase by £2.5m.

The history of experience adjustment is as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of the defined benefit obligation	163.0	157.1	146.0	144.5	140.7
Fair value of plan assets	(146.4)	(130.9)	(112.0)	(126.1)	(124.8)
Restrict recognition of asset and recognition of additional liability	7.0	2.6	1.4	2.7	–
Deficit in the plan	23.6	28.8	35.4	21.1	15.9
Experience adjustments arising on plan liabilities (%)	3.0	6.0	(1.6)	(0.4)	3.3
Experience adjustments arising on plan assets (%)	7.0	12.1	(15.5)	(6.2)	2.4

### 29. Share-based payments

The Group recognised total share-based payment expense (including National Insurance contributions of £0.5m (2010: £0.2m)) of £3.2m (2010: £1.6m).

#### Share options

On 12 August 2004 the Group established a share option programme that entitles key management personnel and other senior employees to purchase shares in the Company. Further grants on similar terms were offered to these employee groups as set out below.

The terms and conditions of the grants are as set out below. All options are to be settled by physical delivery of shares and meet the criteria for being treated as equity settled as defined by IFRS 2.

Employees entitled	Grant date	Number of instruments	Vesting conditions*	Option exercise price	Contractual life of options
(1) 2004 Company share plan	19 May 2005	30,000	Exercisable	310.5p	10 years
(2) 2004 Company share plan	21 June 2006	30,500	Exercisable	439.75p	10 years
(3) 2004 Company share plan	25 September 2006	18,450	Exercisable	472p	10 years
(4) 2004 Company share plan	21 September 2007	22,041	Exercisable	582p	10 years
(5) 2004 Company share plan	19 September 2008	152,401	3 years' service	775.67p	10 years
(6) 2004 Company share plan	15 September 2009	237,553	3 years' service	654.5p	10 years
(7) 2004 Company share plan	10 September 2010	314,206	3 years' service	729.83p	10 years
<b>Total share options</b>		<b>805,151</b>			

\* The options under (1), (2), (3) and (4) are now exercisable. The options under (5), (6) and (7) above can only be exercised if over a three year period the average annual percentage growth in EPS exceeds a minimum of RPI +5% for the same period, unless provisions for 'good leavers' have been met where members retire, leave employment due to ill-health or are made redundant.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2011	No. of options 2011	Weighted average exercise price 2010	No. of options 2010
Outstanding at start of year	618p	681,575	535p	761,519
Forfeited during the year	516p	(47,491)	575p	(57,083)
SAR effected during the year	567p	(90,286)	441p	(122,994)
Exercised during the year	529p	(54,550)	425p	(153,261)
Granted during the year	730p	315,903	655p	253,394
Outstanding at 30 June	680p	805,151	618p	681,575
Exercisable at 30 June	438p	100,991	403p	127,950

The weighted average share price at the date of exercise for share options exercised during the period was 836 pence. In the year to 30 June 2011, options were granted on 10 September 2010. The aggregate of the fair values of those options granted was £723,000.





The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial model, with the following inputs:

#### Assumptions applied in valuation models at grant date

	2011	2010
Exercise price of options granted in the year (nil for awards)	<b>729p</b>	655p
Expected volatility (weighted average volatility)	<b>30%</b>	30%
Option life (expected weighted average life)	<b>6.5 years</b>	6.5 years
Expected dividends	<b>1.80%</b>	1.80%
Risk-free interest rate (based on government bonds)	<b>2.5%</b>	2.97%

Expected volatility was determined by calculating the historical volatility of the estimated fair value of the Company's share price over the previous three years. The option life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

#### Share awards

In addition to the outstanding share options above, there are a total of 746,122 conditional share awards which are outstanding at 30 June 2011. These conditional shares were awarded to Executive Directors and senior management on 19 September 2008, 15 October 2008, 3 March 2009, 15 September 2009, 2 March 2010, 10 September 2010 and 22 September 2010 under the 2004 Performance Share Plan. In accordance with the terms of the plan, participants in the plan have received a conditional annual award of shares or nil cost option award which will vest mainly after three years, with the proportion of the award vesting being based on growth in Group adjusted earnings per share. Further details of the performance conditions attributing to the 2004 Performance Share Plan are given in the Directors' Remuneration Report.

In the year to 30 June 2011, awards were granted on 10 September 2010 and 22 September 2010. The aggregate of the fair values of those awards granted was £1,712,000. The fair value of services received in return for share awards granted is based on the fair value of share awards granted, measured using a Black-Scholes valuation model.

	No. of awards 2011	No. of awards 2010
Outstanding at start of year	<b>748,443</b>	850,698
Exercised during the year	<b>(239,690)</b>	(314,246)
Lapsed during the year	–	(13,537)
Granted during the year	<b>237,369</b>	225,528
Outstanding at 30 June	<b>746,122</b>	748,443

### 30. Capital and reserves

#### Share capital

	2011 Number	2010 Number	2009 Number	2011 £m	2010 £m	2009 £m
<b>Authorised</b>						
Ordinary shares of 10 pence	<b>75,989,400</b>	75,989,400	75,989,400	<b>7.6</b>	7.6	7.6
<b>Issued and fully paid</b>						
Ordinary shares of 10 pence	<b>59,933,085</b>	59,678,535	59,525,274	<b>6.0</b>	6.0	6.0

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

The movement in share capital for the period was as follows:

	2011 Number	2010 Number	2011 £m	2010 £m
Issued under the Executive Share Option Plan	<b>54,550</b>	153,261	–	–
Issued to employee benefits trust	<b>200,000</b>	–	–	–
	<b>254,550</b>	153,261	–	–



# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 30. Capital and reserves *continued*

Shares issued under share option plans were issued at option prices as follows:

	2011 Number	Price	2010 Number	Price
Executive Share Option Plan	<b>5,402</b>	<b>221.5p</b>	3,846	173p
	<b>5,009</b>	<b>439.75p</b>	5,710	221.5p
	<b>2,100</b>	<b>472p</b>	2,500	310.5p
	<b>42,039</b>	<b>582p</b>	4,489	331.5p
	–	–	111,387	439.75p
	–	–	25,329	472p
	<b>54,550</b>		153,261	

## Reserve for own shares

The Company's own shares are held by a Qualifying Employee Share Ownership Trust ('QUEST'), an employee benefit trust established to facilitate the operation of the Group's long-term incentive scheme for senior management. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the Company's shares purchased by the trust which had not vested unconditionally at the balance sheet date. The number and market value of the ordinary shares held by the employee benefit trust and the QUEST were:

	2011 Number	2010 Number	2009 Number	2011 £m	2010 £m	2009 £m
Shares allocated but not vested	<b>122,134</b>	161,824	476,070	<b>1.3</b>	1.2	2.4
Unallocated shares	<b>92,334</b>	92,334	92,334	<b>0.9</b>	0.7	0.5
	<b>214,468</b>	254,158	568,404	<b>2.2</b>	1.9	2.9

## Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of financial instruments (and any related tax effect) that hedge the Company's net investment in a foreign subsidiary. In addition, translation gains and losses and the related tax arising on a US Dollar denominated inter-company loan to the Group's operations in the USA are recorded in the translation reserve.

## Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments net of taxation.

## Hedging and translation reserves

	Hedging reserve £m	Translation reserve £m
<b>Balance at 30 June 2009</b>	(1.4)	10.4
Exchange differences on translation of overseas operations	–	34.8
Gain recognised on net investment hedges	–	(7.1)
Loss recognised on cash flow hedges:		
Interest swaps	0.3	–
Income tax related to gains/(losses) recognised in equity	(0.1)	(7.8)
<b>Balance at 30 June 2010</b>	(1.2)	30.3
Exchange differences on translation of overseas operations	–	(11.6)
Loss recognised on net investment hedges	–	4.9
Loss recognised on cash flow hedges:		
Interest swaps	1.2	–
Income tax related to gains/(losses) recognised in equity	(0.3)	0.6
<b>Balance at 30 June 2011</b>	<b>(0.3)</b>	<b>24.2</b>

**31. Notes to the cash flow statement**

	2011 £m	2010 £m
Profit for the year	29.2	27.5
Adjustment for:		
Net IAS 41 valuation movement on biological assets	(9.8)	(11.0)
Amortisation of intangible assets	5.8	5.8
Share-based payment expense	3.2	1.6
Share of profit of joint ventures and associates	(2.3)	(3.1)
Finance costs	6.3	9.3
Income tax expense	11.6	13.3
Pension curtailment gain	(0.6)	(2.5)
Depreciation of property, plant and equipment	4.7	5.4
Gain on disposal of plant and equipment	(0.1)	–
Other movements in biological assets and harvested produce	(4.1)	(2.6)
Decrease in provisions	(0.4)	(0.1)
Additional pension contributions in excess of pension charge	(3.2)	(1.0)
Other	(0.1)	–
Operating cash flows before movement in working capital	40.2	42.6
Increase in inventories	(1.1)	(0.9)
Increase in receivables	(4.1)	(3.2)
Increase in payables	4.2	2.0
Cash generated by operations	39.2	40.5
Interest received	0.2	0.3
Interest and other finance costs paid	(3.5)	(3.8)
Cash flow from derivative financial instruments	(1.6)	(2.7)
Income taxes paid	(6.2)	(7.8)
<b>Net cash from operating activities</b>	<b>28.1</b>	<b>26.5</b>

The cash impact of exceptional items for the year ended 30 June 2011 was an inflow of £0.6m (2010: £nil).

**Analysis of net debt**

	At 1 July 2010 £m	Cash flows £m	Foreign exchange £m	Non-cash movements £m	At 30 June 2011 £m
Cash and cash equivalents	18.1	0.1	0.1	–	18.3
Interest bearing loans – current	(3.0)	0.2	–	(1.2)	(4.0)
Obligation under finance leases – current	(0.9)	1.0	–	(1.0)	(0.9)
	(3.9)	1.2	–	(2.2)	(4.9)
Interest bearing loans – non-current	(93.2)	8.7	2.8	1.2	(80.5)
Obligation under finance lease – non-current	(1.0)	–	–	0.2	(0.8)
	(94.2)	8.7	2.8	1.4	(81.3)
<b>Net debt</b>	<b>(80.0)</b>	<b>10.0</b>	<b>2.9</b>	<b>(0.8)</b>	<b>(67.9)</b>

Included within non-cash movements is £0.8m in relation to new finance leases.

**32. Operating leases**

The Group leases various offices under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group also leases plant and machines under non-cancellable operating lease agreements.

Total of future minimum lease payments under non-cancellable operating leases which expire within:

	2011 £m	2010 £m
Less than one year	3.6	2.9
Between one and five years	8.5	8.3
More than five years	2.7	3.0
	14.8	14.2

Total future sublease payments receivable relating to the above operating leases amounted to £2.0m (2010: £2.8m).



# Notes to the Group Financial Statements *continued*

For the year ended 30 June 2011

## 33. Capital commitments

At 30 June 2011 outstanding contracted capital expenditure amounted to £nil (2010: £nil, 2009: £1.4m).

## 34. Contingencies

The retirement benefit obligations referred to in note 28 include obligations relating to the Milk Pension defined benefit scheme. Although Genus only accounts for its section and its share of any orphan assets and liabilities, collectively representing approximately 37% of the Milk Pension Fund, the Group, together with the other participating employers, is joint and severally liable for the scheme's obligations.

## 35. Related parties

### Transactions with key management personnel

#### Key management compensation (including Directors)

	2011 £m	2010 £m
Salaries and short-term employee benefits	4.0	3.1
Post-employment benefits	0.1	0.1
Share-based payment expense	2.2	1.0
	6.3	4.2

### Directors

Details of Directors' compensation are included in the Directors' Remuneration Report.

### Other transactions with key management personnel

Other than remuneration there were no transactions with key management personnel.

### Other related party transactions

	Transaction value			Balance outstanding		
	2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m
Sale of goods and services						
Joint ventures and associates	5.0	5.1	1.2	0.4	0.1	0.1

All outstanding balances with joint ventures and associates are priced on an arm's length basis and are to be settled in cash within six months of the reporting date. None of the balances are secured.

### 36. Group entities

The principal subsidiaries of Genus plc and their main activities are set out below. All are 100% owned by Genus plc. Except where shown, all of the companies are registered in England and Wales. The companies listed below include all those which principally affected the amount of the profit or net assets of the Group. A full list of subsidiary and other related companies will be annexed to the next annual return of Genus plc to be filed with the Registrar of Companies.

Subsidiary companies	Holding		Nature of business
ABS Global Inc. (incorporated in United States)	US\$1 capital stock	(1)	Supply of dairy and beef semen
ABS Italia S.r.l. (incorporated in Italy)	€1 quota capital	(1)	Supply of dairy and beef semen
ABS Mexico S.A. de C.V. (incorporated in Mexico)	US\$1 common stock		Supply of dairy and beef semen
ABS Pecplan Ltda. (incorporated in Brazil)	RS1 quota stock		Supply of dairy and beef semen
ABS Global (Canada) Inc (incorporated in Canada)	CN\$1 common shares	(1)	Supply of dairy and beef semen
Bovec SAS (incorporated in France)	€1 capital stock	(1)	Supply of dairy and beef semen
Genus Australia Pty Ltd (incorporated in Australia)	AU\$1 ordinary shares	(1)	Supply of dairy and beef semen
Genus Breeding Limited	£1 ordinary shares		Supply of dairy and beef semen
Promar International Limited	£1 ordinary shares		Market research and consultancy
PIC Andina S.A. (incorporated in Chile)	Peso 1 ordinary shares	(1)	Supply of pigs and semen
PIC Espana S.A. (Spain) (incorporated in Spain)	€1 capital stock	(1)	Supply of pigs and semen
PIC USA, Inc (incorporated in United States)	US\$1 capital stock	(1)	Supply of pigs and semen
PIC Polska Sp. (incorporated in Poland)	PLN1 common stock	(1)	Supply of pigs and semen
Pig Improvement Company Deutschland GmbH (incorporated in Germany)	€1 capital stock	(1)	Supply of pigs and semen
Pig Improvement Company Mexico S.A. de C.V. (incorporated in Mexico)	Peso 1 quota stock	(1)	Supply of pigs and semen
Pig Improvement Company UK Limited	10p ordinary shares	(1)	Supply of pigs and semen
PIC (Zhangjiagang) China (incorporated in China)	US\$ ordinary shares	(1)	Supply of pigs and semen

(1) Held by subsidiary undertaking.



# Independent Auditors' Report – Parent Company Financial Statements

## Independent Auditors' Report to the members of Genus plc

We have audited the Parent Company Financial Statements of Genus plc for the year ended 30 June 2011 which comprise the Parent Company Balance Sheet and the related notes 37 to 50. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Parent Company 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 Parent Company 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 ('APBs') Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the Parent Company Financial Statements:

- > give a true and fair view of the state of the Parent Company's affairs as at 30 June 2011;
- > have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- > have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- > the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- > the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited 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.

## Other matter

We have reported separately on the Group Financial Statements of Genus plc for the year ended 30 June 2011.



**Edward Hanson (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditors  
London, United Kingdom  
5 September 2011



# Parent Company Financial Statements

## Balance Sheet

As at 30 June 2011

	Note	2011 £m	2010 £m
<b>Fixed assets</b>			
Tangible assets	39	<b>0.7</b>	0.5
Investments in subsidiaries	40	<b>239.6</b>	237.5
		<b>240.3</b>	238.0
<b>Current assets</b>			
Debtors	41	<b>18.5</b>	32.2
Cash at bank and in hand		<b>0.3</b>	1.1
		<b>18.8</b>	33.3
<b>Creditors: Amounts falling due within one year</b>	43	<b>(35.2)</b>	(28.0)
<b>Net current (liabilities)/assets</b>		<b>(16.4)</b>	5.3
<b>Total assets less current liabilities</b>		<b>223.9</b>	243.3
<b>Creditors: Amounts falling due after more than one year</b>	44	<b>(81.6)</b>	(105.5)
<b>Net assets</b>		<b>142.3</b>	137.8
<b>Capital and reserves</b>			
Called up share capital	47	<b>6.0</b>	6.0
Share premium account	47	<b>112.0</b>	112.0
Own shares	47	<b>(0.1)</b>	(0.1)
Profit and loss account	47	<b>24.7</b>	21.1
Hedging reserve	47	<b>(0.3)</b>	(1.2)
<b>Shareholders' funds</b>	48	<b>142.3</b>	137.8

The Financial Statements of Genus plc, (registration number 02972325) were approved by the Board of Directors on 5 September 2011.

Signed on behalf of the Board of Directors



**R K Wood**  
Chief Executive



**J G Worby**  
Group Finance Director

# Notes to the Parent Company Financial Statements

## For the year ended 30 June 2011

### 37. Significant accounting policies

#### Basis of preparation

The Financial Statements are prepared under the historical cost convention, in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. The accounting policies have been applied consistently throughout the current and prior year.

The principal accounting policies are summarised below.

The Company's financial statements are included in the Genus plc consolidated financial statements for the year ended 30 June 2011. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The Company has also taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash Flow Statements'. The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the Genus Group.

#### Fixed assets and depreciation

Fixed assets are stated at cost, together with any incidental expenses of acquisition or at their latest valuation, less depreciation and any provision for impairment. Depreciation is calculated to write off the assets to their estimated residual values over their estimated useful lives on a straight-line basis. The rates of annual depreciation on tangible fixed assets are as follows:

Leasehold land and buildings	period of lease
Equipment	3–20 years
Motor vehicles	3–5 years

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

#### Investments

Fixed assets investments are stated at cost less provision for impairment.

#### Pensions

A number of employees are members of defined contribution pension schemes. Contributions are charged to profit and loss as they become payable in accordance with the rules of the scheme. Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the balance sheet. The assets of these schemes are held separately from those of the Company.

Certain current and former employees of the Company are members of one of the Group's defined benefit pension schemes, further details of which are given in note 28 of the Group Financial Statements. The schemes are all multi-employer defined benefit schemes, the assets and liabilities of which are held independently from the Group. The Company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme.

#### Taxation

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date.

This is subject to deferred taxation assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements and which are capable of reversal in one or more subsequent periods.

Deferred taxation is recognised in respect of the future remittance of retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable.



Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

### Treasury shares

The Company has adopted UITF Abstract 38, '*Accounting for ESOP Trusts*', which requires the assets and liabilities associated with the Company's investment in its own shares to be recognised in the Company's financial statements where there is de facto control of the assets and liabilities.

The Company's own shares held by a Qualifying Employee Share Ownership Trust ("QUEST") remain deducted from shareholders' funds until they vest unconditionally with employees.

### Employee share schemes

Executive Directors and Chief Operating Officers of the Company receive part of their remuneration in the form of share awards which vest upon meeting performance criteria over a three year period.

The cost of such awards is measured by reference to the fair value of the shares at the date of the award. At the end of each financial reporting period an estimate is made of the extent to which those performance criteria will be met at the end of three years and an appropriate charge recorded in the profit and loss account together with a corresponding credit to profit and loss reserves. Changes in estimates of the number of shares vesting may result in charges or credits to the profit and loss account in subsequent periods.

### Share-based payments

The Company has implemented the generally accepted accounting principle for accounting for share-based payments with its subsidiary undertaking under UITF 44, whereby the Company has granted the rights of its shares to the employees of its subsidiary undertaking under an equity-settled arrangement and the subsidiaries have not reimbursed to the Company for these rights. Under this arrangement, the Company treats the share-based payment recognised in the subsidiary's accounts as a cost of investment in the subsidiary and credits equity with an amount equal to the share-based payment recognised by these subsidiaries in their accounts.

### Derivative financial instruments and hedging

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Company uses interest rate swaps to hedge interest rate risk. The Company also uses forward foreign currency contracts (implemented through a medium-term US Dollar cross currency borrowing and related interest rate swap) to hedge exposure to translation risk associated with US Dollar net assets of subsidiary entities. Forward foreign currency contracts do not qualify for hedge accounting in the Parent Company Financial Statements, as the hedged item is not in its balance sheet.

The use of financial derivative instruments is governed by the Group's policies approved by the Board of Directors, which provides written principles on the use of financial derivatives. Information about the Group's financial risks, the management thereof, and the use of financial instruments and their impact on the Group's risk, profile, performance, and financial condition is included in the notes to the Group Financial Statements.

The fair value of the US Dollar and interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.



# Notes to the Parent Company Financial Statements

## continued For the year ended 30 June 2011

### 37. Significant accounting policies continued

#### 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 the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

Where a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes 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 profit and loss account immediately.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship, the cumulative gain or loss at that point remains in equity until such point as the investment to which it relates is disposed.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in the profit and loss account.

#### Debt

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

#### Finance costs

Finance costs of debt are charged to the profit and loss account over the term of the debt at a constant rate on the carrying value of the debt to which they relate.

### 38. Employees

Staff costs including Directors' remuneration during the year amounted to:

	2011 £m	2010 £m
Wages and salaries	3.6	2.9
Social security costs	0.3	0.4
Pension costs	0.1	0.1
Share-based payment expense	1.7	0.7
	5.7	4.1

The average monthly number of employees including Executive Directors during the year was as follows:

	2011 No.	2010 No.
Administration	18	18

Details of Directors' remuneration, pensions and share options are included in the Directors' Remuneration Report.





### 39. Tangible fixed assets

	Leasehold land and buildings £m	Motor vehicles and equipment – owned £m	Total £m
<b>Cost</b>			
At 1 July 2010	0.2	0.7	0.9
Additions	–	0.3	0.3
Disposals	–	(0.1)	(0.1)
<b>At 30 June 2011</b>	<b>0.2</b>	<b>0.9</b>	<b>1.1</b>
<b>Depreciation</b>			
At 1 July 2010	0.1	0.3	0.4
Charge for the year	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
<b>At 30 June 2011</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>
<b>Net book value</b>			
<b>At 30 June 2011</b>	<b>0.1</b>	<b>0.6</b>	<b>0.7</b>
<b>At 30 June 2010</b>	0.1	0.4	0.5

### 40. Investments

	Shares in subsidiary undertaking £m
<b>Cost</b>	
At 1 July 2010	254.4
Additions	2.1
<b>At 30 June 2011</b>	<b>256.5</b>
<b>Provision for impairment</b>	
At 1 July 2010 and 30 June 2011	<b>16.9</b>
<b>Net book value</b>	
<b>At 30 June 2011</b>	<b>239.6</b>
<b>At 30 June 2010</b>	237.5

#### Principal subsidiary undertakings

The principal subsidiaries of Genus plc and their main activities are given in note 36.

### 41. Debtors

	Note	2011 £m	2010 £m
<b>Amounts due within one year</b>			
Amounts owed by Group undertakings		<b>16.7</b>	12.1
Corporation tax recoverable		<b>0.1</b>	0.2
Other taxes and social security		<b>0.6</b>	0.5
Prepayments and accrued income		<b>0.1</b>	0.1
Deferred tax	42	<b>1.0</b>	1.0
		<b>18.5</b>	13.9
<b>Amounts due after more than one year</b>			
Amounts owed by Group undertakings – derivative financial assets	46	–	18.3
		<b>18.5</b>	32.2

At the balance sheet date the amounts owed by Group undertakings were £16.7m (2010: £12.1m). The carrying amount of these assets approximates their fair value. There are impaired receivable balances of £1.5m (2010: £1.5m). Of the amounts owed by Group undertakings, £0.7m (2010: £0.6m) is interest-bearing.



# Notes to the Parent Company Financial Statements

## continued For the year ended 30 June 2011

### 42. Deferred tax

The movements in deferred taxation are as follows:

	2011 £m	2010 £m
At the start of the year	1.0	1.2
Credit/(charge) for the year	0.2	(0.3)
Recognised in equity	(0.2)	0.1
<b>At the end of the year</b>	<b>1.0</b>	<b>1.0</b>

The amounts provided are as follows:

	2011 £m	2010 £m
Derivatives	0.1	0.5
Share-based payments	0.8	0.4
Other timing differences	0.1	0.1
	<b>1.0</b>	<b>1.0</b>

The amounts unprovided are as follows:

	2011 £m	2010 £m
Losses	1.5	1.6

### Unrecognised deferred tax assets

At the balance sheet date, the Company has unused tax losses with a potential tax benefit of £1.5m (2010: £1.6m) available for offset against future profits. No deferred tax asset has been recognised due to the uncertainty over the availability of future taxable profits.

### 43. Creditors: amounts falling due within one year

	Note	2011 £m	2010 £m
Bank loans and overdrafts	45	2.6	–
Trade creditors		0.2	0.3
Other creditors including taxation and social security		0.5	0.5
Amounts owed to Group undertakings		28.3	25.0
Accruals and deferred income		3.2	2.2
Derivative financial liabilities	46	0.4	–
		<b>35.2</b>	<b>28.0</b>

Included within amounts owed to Group undertakings are amounts of £24.2m (2010: £20.5m) which are interest-bearing and payable on demand.

### 44. Creditors: amounts falling due after more than one year

	Note	2011 £m	2010 £m
Bank loans and overdrafts	45	79.7	93.9
Derivative financial liabilities	46	0.2	11.6
Amounts owed to Group undertakings – derivative financial liabilities	46	1.7	–
		<b>81.6</b>	<b>105.5</b>

## 45. Loans and borrowings

	2011 £m	2010 £m
<b>Loans and borrowings comprise amounts falling due:</b>		
In one year or less or on demand	3.1	1.6
In more than one year but not more than two years	6.2	93.9
In more than two years but not more than five years	74.6	–
	83.9	95.5
Less: unamortised issue costs	(1.6)	(1.6)
	82.3	93.9
<b>Amounts falling due within one year</b>	<b>(2.6)</b>	<b>–</b>
<b>Amounts falling due after more than one year</b>	<b>79.7</b>	<b>93.9</b>

The Company has refinanced its bank credit facilities with a group of five lending banks in March 2011. The credit facilities comprise a £65m multi-currency revolving credit facility, a US\$60m revolving credit and a US\$50m term loan being repayable on 30 September 2015.

As part of its interest rate strategy the Company has entered into interest rate swaps to hedge floating LIBOR rates. As a result bank loan and overdrafts include £10.0m fixed at 2.17%, US\$70m (£43.6m) fixed at 1.40%, and €6m (£5.4m) fixed at 1.91%. All indicated rates are exclusive of applicable bank margin.

### Terms and debt repayment schedule

Terms and conditions of outstanding loans and overdrafts (excluding unamortised issue costs) were as follows:

	Currency	Interest rate	2011 £m	2010 £m
Revolving credit facility and overdraft	GBP	2.0%	10.0	45.6
Revolving credit facility, term loan and overdraft	USD	1.6%	68.5	40.1
Secured revolving credit facility and overdraft	EUR	2.7%	5.4	9.8
<b>Total interest-bearing liabilities</b>			<b>83.9</b>	<b>95.5</b>

The above revolving credit facilities were secured in 2010 but following a refinancing in March 2011 are now unsecured.

## 46. Derivatives and other financial instruments

### Fair values

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

	2011		2010	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Interest rate swap treated as cash flow hedge	(0.6)	(0.6)	(2.1)	(2.1)
Cross currency swap – external	–	–	(9.6)	(9.6)
Cross currency swap – internal	(1.7)	(1.7)	18.3	18.3
	(2.3)	(2.3)	6.6	6.6

### Hedges

The Company's policy is to monitor net transactional currency exposures and future contracted sales, in order to hedge such exposures in the Group, where appropriate. There were short-term forward contracts totalling £3.2m (net) entered into at 30 June 2011 (2010: £0.2m (net)).

The recognised profit included in the profit and loss account on forward exchange contracts taken out in previous years amounted to £0.1m (2010: £0.1m). The Company has entered into interest rate swaps and a cross currency swap in order to manage its interest rate profile.

### Other information

Additional disclosure on financial instruments can be found in note 25.



# Notes to the Parent Company Financial Statements

## continued For the year ended 30 June 2011

### 47. Capital and reserves

#### Share capital

	2011 Number	2010 Number	2011 £m	2010 £m
<b>Authorised</b>				
Ordinary shares of 10 pence	<b>75,989,400</b>	75,989,400	<b>7.6</b>	7.6
<b>Issued and fully paid</b>				
Ordinary shares of 10 pence	<b>59,933,085</b>	59,678,535	<b>6.0</b>	6.0

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

The movement in share capital for the period was as follows:

	2011 Number	2010 Number	2011 £m	2010 £m
Issued under the Executive Share Option Plan	<b>54,550</b>	153,261	–	–
Issued to employee benefit trust	<b>200,000</b>	–	–	–
	<b>254,550</b>	153,261	–	–

Shares issued under share option plans were issued at option prices as follows:

	2011 Number	Price	2010 Number	Price
Executive Share Option Plan	<b>5,402</b>	<b>221.5p</b>	3,846	173p
	<b>5,009</b>	<b>439.75p</b>	5,710	221.5p
	<b>2,100</b>	<b>472p</b>	2,500	310.5p
	<b>42,039</b>	<b>582p</b>	4,489	331.5p
	–	–	111,387	439.75p
	–	–	25,329	472p
	<b>54,550</b>		153,261	

#### Reserve for own shares

The Company's own shares are held by a Qualifying Employee Share Ownership Trust ('QUEST') and an employee benefit trust established to facilitate the operation of the Group's long-term incentive scheme for senior management. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the Company's shares purchased by the trust which had not been vested unconditionally at the balance sheet date. The number and market value of the ordinary shares held by the employee benefit trust and the QUEST was:

	2011 Number	2010 Number	2011 £m	2010 £m
Shares allocated but not vested	<b>122,134</b>	161,824	<b>1.3</b>	1.2
Unallocated shares	<b>92,334</b>	92,334	<b>0.9</b>	0.7
	<b>214,468</b>	254,158	<b>2.2</b>	1.9

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of taxation.

#### Share options

On 12 August 2004 the Group established a share option programme that entitles key management personnel and other senior employees to purchase shares in the Company. Further grants on similar terms were offered to these employee groups as set out below.



The terms and conditions of the grants are as set out below. All options are to be settled by physical delivery of shares and meet the criteria for being treated as equity settled as defined by FRS 20.

Employees entitled	Grant date	Number of instruments	Vesting conditions*	Option exercise price	Contractual life of options
(1) 2004 Company share plan	19 May 2005	30,000	Exercisable	310.5p	10 years
(2) 2004 Company share plan	21 June 2006	30,500	Exercisable	439.75p	10 years
(3) 2004 Company share plan	25 September 2006	18,450	Exercisable	472p	10 years
(4) 2004 Company share plan	21 September 2007	22,041	Exercisable	582p	10 years
(5) 2004 Company share plan	19 September 2008	152,401	3 years service	775.67p	10 years
(6) 2004 Company share plan	15 September 2009	237,553	3 years service	654.5p	10 years
(7) 2004 Company share plan	10 September 2010	314,206	3 years service	729.83p	10 years
<b>Total share options</b>		<b>805,151</b>			

\* The options under (1), (2), (3) and (4) are now exercisable. The options under (5), (6) and (7) above can only be exercised if over a three year period the average annual percentage growth in EPS exceeds a minimum of RPI +5% for the same period, unless provisions for 'good leavers' have been met where members retire, leave employment due to ill-health or are made redundant.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2011	No. of options 2011	Weighted average exercise price 2010	No. of options 2010
Outstanding at start of year	618p	681,575	535p	761,519
Forfeited during the year	516p	(47,491)	575p	(57,083)
SAR effected during the year	567p	(90,286)	441p	(122,994)
Exercised during the year	529p	(54,550)	425p	(153,261)
Granted during the year	730p	315,903	655p	253,394
Outstanding at 30 June	680p	805,151	618p	681,575
Exercisable at 30 June	438p	100,991	403p	127,950

The weighted average share price at the date of exercise for share options exercised during the period was 836 pence.

In the year to 30 June 2011, options were granted on 10 September 2010. The aggregate of the fair values of those options granted was £723,000.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial model, with the following inputs:

	2011	2010
<b>Assumptions applied in valuation models at grant date</b>		
Exercise price of options granted in the year (nil for awards)	729p	655p
Expected volatility (weighted average volatility)	30%	30%
Option life (expected weighted average life)	6.5 years	6.5 years
Expected dividends	1.80%	1.80%
Risk-free interest rate (based on government bonds)	2.5%	2.97%

Expected volatility was determined by calculating the historical volatility of the estimated fair value of the Company's share price over the previous three years. The option life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### Share awards

In addition to the outstanding share options above, there are a total of 746,122 conditional share awards which are outstanding at 30 June 2011. These conditional shares were awarded to Executive Directors and senior management on 19 September 2008, 15 October 2008, 3 March 2009, 15 September 2009, 2 March 2010, 10 September 2010 and 22 September 2010 under the 2004 Performance Share Plan. In accordance with the terms of the plan, participants in the plan have received a conditional annual award of shares or nil cost option award which will vest mainly after three years, with the proportion of the award vesting being based on growth in Group adjusted earnings per share. Further details of the performance conditions attributing to the 2004 Performance Share Plan are given in the Directors' Remuneration Report.





# Notes to the Parent Company Financial Statements

## continued For the year ended 30 June 2011

### 47. Capital and reserves continued

In the year to 30 June 2011, awards were granted on 10 September 2010 and 22 September 2010. The aggregate of the fair values of those awards granted was £1,712,000. The fair value of services received in return for share awards granted is based on the fair value of share awards granted, measured using a Black-Scholes valuation model.

	No. of awards 2011	No. of awards 2010
Outstanding at start of year	748,443	850,698
Exercised during the year	(239,690)	(314,246)
Lapsed during the year	–	(13,537)
Granted during the year	237,369	225,528
<b>Outstanding at 30 June</b>	<b>746,122</b>	<b>748,443</b>

	Share premium account £m	Profit and loss account £m	Hedging reserve £m	Own shares £m
At 1 July 2010	112.0	21.1	(1.2)	(0.1)
Profit for the financial year	–	7.8	–	–
Dividends paid	–	(7.2)	–	–
Share-based payments, net of tax	–	3.0	–	–
Fair value movement on cash flow hedges, net of tax	–	–	0.9	–
<b>At 30 June 2011</b>	<b>112.0</b>	<b>24.7</b>	<b>(0.3)</b>	<b>(0.1)</b>

For information on dividends see note 12.

### 48. Reconciliation of shareholders' funds

	2011 £m	2010 £m
Shareholders' funds at 1 July	137.8	131.0
Retained profit for the year	7.8	11.1
Premium on shares issued	–	0.3
Dividend paid	(7.2)	(6.5)
Share-based payments, net of tax	3.0	1.7
Fair value movement on cash flow hedges, net of tax	0.9	0.2
<b>Shareholders' funds at 30 June</b>	<b>142.3</b>	<b>137.8</b>

### 49. Related party transactions

The Company is exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the Genus Group.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of other related party transactions are disclosed in note 35 in the Group Financial Statements.

### 50. Contingencies

The retirement benefit obligations referred to in note 28 include obligations relating to the Milk Pension defined benefit scheme. Although Genus only account for its section and its share of any orphan assets and liabilities, collectively representing approximately 37% of the Milk Pension Fund, the Group together with the other participating employers, is joint and severally liable for the scheme's obligations.



# Five Year Record – Consolidated Results

The information included in the five year record below is in accordance with IFRS as adopted for use in the European Union.

Financial results	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Revenue from continuing operations	<b>309.9</b>	285.3	280.4	247.1	233.8
Adjusted operating profit from continuing operations*	<b>42.2</b>	39.9	38.1	32.3	28.7
Adjusted operating profit including joint ventures*	<b>45.3</b>	42.2	40.2	35.0	30.0
Adjusted profit before tax*	<b>39.0</b>	32.9	32.0	27.9	20.0
Basic adjusted earnings per share*	<b>44.8p</b>	36.7p	36.1p	31.8p	24.6p
Diluted adjusted earnings per share*	<b>44.1p</b>	36.2p	35.6p	31.2p	23.9p
Operating profit from continuing operations	<b>44.8</b>	47.0	33.0	26.2	28.4
Profit before tax from continuing operations	<b>40.8</b>	40.8	26.2	22.0	19.9
Profit after tax from continuing operations	<b>29.2</b>	27.5	17.9	14.2	12.7
Profit for year	<b>29.2</b>	27.5	17.9	17.7	14.6
Basic earnings per share	<b>49.0p</b>	46.3p	30.4p	30.8p	26.6p
Diluted earnings per share	<b>48.2p</b>	45.7p	29.9p	30.2p	25.8p
Net assets	<b>271.9</b>	251.8	204.6	185.1	150.9
Net debt	<b>67.9</b>	80.0	88.0	77.5	111.1

\* Adjusted operating profit, adjusted profit before tax and adjusted basic and diluted earnings per share are before net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, share-based payment expense, exceptional items and other gains and losses.



# Notice of Annual General Meeting

## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all your shares in Genus plc, please send this document and the accompanying documents to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

### Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2011 Annual General Meeting of Genus plc (the 'Company') will be held at Buchanan Communications, 107 Cheapside, London EC2V 6DN on 10 November 2011 at 11.00am for the following purposes:

To consider and if thought fit, to pass the following resolutions, of which numbers 1 to 11 will be proposed as ordinary resolutions and numbers 12 to 14 as special resolutions.

### Ordinary Business

1. To receive and approve the Company's audited financial statements and directors' and auditors' reports for the year ended 30 June 2011.
2. To approve the directors' remuneration report for the year ended 30 June 2011.
3. To declare and approve a final dividend of 13.3 pence per ordinary share, payable to shareholders on the register of members at the close of business on 11 November 2011.
4. To elect Bob Lawson as a director of the Company who, being eligible, submits himself for election.
5. To elect Karim Bitar as a director of the Company who, being eligible, submits himself for election.

In accordance with provisions of the UK Corporate Governance Code, all directors of the Company are required to offer themselves for annual re-election. Accordingly, resolutions 6 to 9 are proposed:

6. To re-elect John Worby as a director of the Company who, being eligible, offers himself for re-election.
7. To re-elect Nigel Turner as a director of the Company who, being eligible, offers himself for re-election.
8. To re-elect Mike Buzzacott as a director of the Company who, being eligible, offers himself for re-election.
9. To re-elect Barry Furr as a director of the Company who, being eligible, offers himself for re-election.
10. To re-appoint Deloitte LLP as auditors of the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the next general meeting of the Company at which financial statements are laid and to authorise the directors to agree the auditors' remuneration.
11. THAT the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act") to allot shares in the Company up to a maximum aggregate nominal amount of £1,605,631 being 16,056,315 ordinary shares of 10 pence each ('Ordinary Shares'), such authority to expire on the conclusion of the Company's Annual General Meeting next following but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require shares to be allotted after such expiry and the directors may allot shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.



# Notice of Annual General Meeting *continued*

## Special Business

12. THAT subject to and conditional on the passing of resolution 11, the directors be empowered, pursuant to section 570 and section 573 of the Act, to allot equity securities (within the meaning of sections 560 of the Act) for cash pursuant to the authority conferred by resolution 11 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
- 12.1 in connection with an offer of such securities by way of rights issue; and
  - 12.2 otherwise than pursuant to sub-paragraph 12.1 above up to an aggregate nominal amount of £299,665 being 2,996,654 Ordinary Shares representing not more than 5% of the issued share capital of the Company as at 30 June 2011,

and shall expire on the conclusion of the Company's Annual General Meeting next following save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired. This power applies in relation to a sale of treasury shares as if all references in this resolution to an allotment included any such sale and in the first paragraph of this resolution the words 'pursuant to the authority conferred by resolution 11' were omitted in relation to such a sale.

In this resolution, 'rights issue' means an offer of equity securities open for acceptance for a period fixed by the directors to holders on the register on a fixed record date in proportion as nearly as may be to their respective holdings, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirement of any recognised regulatory body or any stock exchange in, any territory or any other matter.

13. THAT subject to and in accordance with article 9 of the Company's Articles of Association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares on such terms as the directors think fit provided that:
- 13.1 the maximum number of Ordinary Shares hereby authorised to be purchased is 5,993,308 (representing 10% of the Company's issued ordinary share capital as at 30 June 2011);
  - 13.2 the minimum price, exclusive of any expenses, which may be paid for an Ordinary Share is 10 pence;
  - 13.3 the maximum price, exclusive of any expenses, which may be paid for an Ordinary Share is an amount equal to the higher of: (a) 105% of the average of the middle market quotations for an Ordinary Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately before the day on which such share is contracted to be purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003; and
  - 13.4 the authority conferred by this resolution shall expire on the conclusion of the Company's Annual General Meeting next following or 18 months after the date of its passing (whichever occurs first), except that the Company may, before such expiry, enter into a contract for the purchase of Ordinary Shares which will or may be completed by or executed wholly or partly after the expiration of this authority.
14. THAT a general meeting, other than an Annual General Meeting, may be called on not less than 14 clear days' notice and that such authority shall expire on the conclusion of the Company's Annual General Meeting next following.

By order of the Board

Registered office:  
Belvedere House  
Basing View  
Basingstoke  
RG21 4HG  
Registered in England and Wales with number 02972325



**Ian Farrelly**

Group Company Secretary & General Counsel  
10 October 2011





**NOTES:**

This notice is being sent to all members and to any person nominated by a member of the Company under section 146 of the Companies Act 2006 (the 'Act') to enjoy information rights. Information regarding the Annual General Meeting, including the information required by section 311A of the Act, is available from [www.genusplc.com](http://www.genusplc.com).

Members will find an attendance card and a form of proxy enclosed with this notice. If you are attending the Annual General Meeting, you should bring the attendance card with you. Only holders of Ordinary Shares, or their duly appointed representatives, are entitled to attend, vote and speak at the Annual General Meeting. Any member so entitled may appoint one or more proxies to attend, speak and to vote instead of him. A proxy need not be a member of the Company but must attend the Annual General Meeting to represent you. Details of how to appoint one or more proxies are set out in the notes to the proxy form. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

To be valid, a duly executed form of proxy for use at the Annual General Meeting together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a duly certified copy of such power or authority must be deposited at the offices of Equiniti Registrars, SEA10845, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZJ at least 48 hours (excluding non-working days) before the time appointed for holding the Annual General Meeting or any adjournment thereof. Alternatively, proxies may be appointed by having an appropriate CREST message transmitted, if you are a user of the CREST system (further details are below). In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Completion and return of a form of proxy will not preclude shareholders from attending the Annual General Meeting and voting in person if they wish to do so.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Act ('nominated persons'). Nominated persons may have a right under an agreement with the registered member who hold shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the Annual General Meeting is 6.00pm on 8 November 2011 (or if the Annual General Meeting is adjourned, members on the register of members not later than 6.00pm on the day that is two working days prior to the reconvened Annual General Meeting). Changes to entries on the register of members after the relevant time will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

Copies of contracts of service and letters of appointment between the directors and the Company will be available for inspection at the Registered Office of the Company during normal business hours until the conclusion of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to the Annual General Meeting until its conclusion.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this Annual General Meeting to be held on 10 November 2011 at 11.00am and any adjournment(s) thereof by using the procedures described in the CREST Manual found on the Euroclear website [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK and Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the notice of Annual General Meeting. For this purpose,



# Notice of Annual General Meeting *continued*

the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK and Ireland Limited do not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001, as amended.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

As at 30 June 2011 the Company's issued share capital comprised 59,933,085 ordinary shares of 10 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 30 June 2011 is 59,933,085. The Company's website, referred to above, will include information on the number of shares and voting rights.

Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information; the answer has already been given on a website in the form of an answer to a question; or it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

Voting on all resolutions will be conducted on a show of hands or a poll. Except as provided above, members who have general queries about the Annual General Meeting should call Equiniti registrars on 0871 384 2290. Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines open 8.30am to 5.30pm, Monday to Friday. If calling from overseas, please call the Equiniti overseas helpline number of +44 121 415 7047. No other methods of communication will be accepted. You may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.



# Notes

---

# Notes

Advisors

Secretary & Registered Office

I B Farrelly  
Belvedere House  
Basing View  
Basingstoke  
Hampshire  
RG21 4HG  
Registered Number 2972325

Stockbrokers

Peel Hunt  
111 Old Broad Street  
London  
EC2N 1PH

Singer Capital Markets Limited  
One Hanover Street  
London  
W1S 1YZ

Financial Advisors

Morgan Stanley  
25 Cabot Square  
Canary Wharf  
London  
E14 4QA

Singer Capital Markets Limited  
One Hanover Street  
London  
W1S 1YZ

Auditors

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

Solicitors

Berwin Leighton Paisner  
Adelaide House  
London Bridge  
London  
EC4R 9HA

Bankers

Barclays Corporation Bank  
1st Floor  
3 Hardman Street  
Spinningfields  
Manchester  
M3 3HF

Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA







[www.genusplc.com](http://www.genusplc.com)

**Genus plc**  
Belvedere House  
Basing View  
Basingstoke  
Hampshire  
RG21 4HG

T +44(0)1256 347100  
F +44(0)1256 477385

