12 JULY 2018

ITACONIX PLC PRELIMINARY RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

2017 Business Highlights

Strategic focus

Itaconix plc ("Itaconix" or the "Company") is a world leader in bio-based polymers made from Itaconic acid (which is derived from corn starch) using an established proprietary process with break-through economics, that produce unique or enhanced product performance at a competitive price. Itaconix has a portfolio of functional ingredients that are used in a range of consumer products in homecare, personal care and industrial applications.

Markets

Currently, we estimate that our product range is addressing global markets with an estimated aggregate turnover of $1.4bn per annum, but as a small growing company we recognise the challenge of effectively accessing these markets in a timely fashion. To address this, Itaconix is actively building collaborative partnerships with leading industry players such as AkzoNobel, Croda and Solvay, with the aim of accelerating market adoption of Itaconix's products. In addition, Itaconix has built a distribution network across 14 countries as a channel to market for the personal care business area.

Summary of commercial progress in 2017

	Product	Commercial milestone target	2017 milestone status
1	Itaconix® DSP™, CHT™	Revenue growth in 2017. Adoption in auto dish wash ("ADW") by major private label house or equivalent	H1 revenue mainly based on Itaconix® DSP™. Limited revenue growth from CHT™. AkzoNobel Chelates Application Agreement.
2	RevCare NE ™	Appointment of distributors First sales and revenue growth in 2017	Distributors appointed in multiple jurisdictions. First sales with use in first consumer products.
3	Itaconix ® ZINADOR™	Sign commercial partner Revenue growth in homecare and industrial	Croda Supply and Joint Marketing Agreement with global marketing rights. Repeat sales to Croda delivering revenue growth .
4	Licences (Royalty)	First revenues from Solvay PAP licence Secure new licences	Solvay notified ITX of first, Eureco™ RP103 sales in H2. Repeat orders awaited.
5	RevCoat Bond ™	Appointment of distributors Sign-up lead customer and revenue growth in 2017	Licence to tremco-illbruk in January 2018
6	Itaconix® TSI™, XDP™	Sign-up lead customer, first sales	AkzoNobel Performance Additives Application Agreement. First sales were not delivered.
7	RevCap FE™	Sign two lead customers Revenue growth	Not delivered.

Organisation

During 2017 and after the year end, the Group has continued to refine its organisational structure to align with its markets and customers. In particular, the UK activities of the business will now be consolidated into its US base and manufacturing facility in New Hampshire, USA. This consolidation is expected to reduce Group operating expenses to around £2.2m per annum from 2019 and is driven by a further focus on growing sales of its core products and manufacture, as Itaconix moves out of the product development phase. With the axis of the Company switching to the USA certain Board changes are anticipated: John Shaw, previously President of Itaconix's US operations, will be appointed to the role of CEO; Kevin Matthews will step down from his current role of CEO and assume the role of Executive Chairman until the end of 2018 to help John Shaw transition the business and provide a link to the UK shareholder base; Bryan Dobson will step down from the role of Non-executive Chairman but will remain an independent non-executive director until a suitable successor is appointed at which point he will retire from the Board; Julian Heslop will remain an independent non-executive director until a suitable successor is appointed at which point he will retire from the Board; and Robin Cridland will step down as CFO and retire from the Board at the end of August 2018 (with an interim CFO appointed until a new US-focused full time CFO is appointed in due course), all such changes being subject to the closing of a refinancing early in the second half of 2018 and associated shareholder approvals.

2017 Financial Highlights

- £3.6m of short term deposits, cash and cash equivalents on hand at the year end (2016: £8.8m), reflecting a net cash outflow of £5.2m from operating and investing (i.e. in property, plant and equipment) activities
- Continuing operations revenue of £0.6m (2016: £0.3m), primarily full year sales of Itaconix® DSP™ and Itaconix® ZINADOR™ 22L, resulting in a gross profit of £0.2m (2016: £0.1m)
- Continuing operations administrative expenses (including research and development expenditure) of £5.5m (2016: £5.3m). The increase in expenses was primarily as a result of inclusion of the US Itaconix Corporation cost base for a full year compared to half the year in 2016, although to try to minimize this impact, savings in development and professional advisory fees were made in 2017
- Accordingly, Group operating loss before taxation was flat at £5.2m (2016: £5.2m)
- Continuing operations loss before tax of £11.9m (2016: £5.6m), after non cash exceptional items as follows: (i) a charge for full impairment of goodwill and intellectual property arising on the acquisition of Itaconix Corporation of £9.0m (2016: nil); (ii) a credit in respect of devaluation of the contingent consideration payable to the shareholders of Itaconix Corporation of £2.5m (2016: nil); and (iii) share of loss of associate of £0.2m (2016: a loss of £0.5m) – a net non cash charge of £6.7m (2016: £0.5m). Excluding share of loss of associate, these non cash exceptional items result from slower than anticipated growth in the revenues and profits of the acquired business and reduced management forecasts as at the date of this report, although the board believes significant revenue and profit growth could still be delivered in the medium to longer term
- Loss for the year from continuing operations of £10.2m (2016: £5.1m), after tax credits of £0.5m (2016: £0.5m) and the release of a deferred tax liability relating to the fully impaired intellectual property of £1.2m (2016 nil)
- Intangible assets of nil (2016: £10.1m), after full impairment of intellectual property and goodwill arising on the acquisition of Itaconix Corporation
- Non-current liabilities of £0.6m (2016: £4.9m) comprising the fair value of contingent consideration payable to certain of the former shareholders of Itaconix Corporation of £0.6m (2016: £3.4m), reflecting a reduction in the product revenue forecasts that are used to value this liability. The 2016 figure also includes deferred tax of £1.5m relating to intellectual property (that was eliminated in 2017).

Proposed fund raise

- Proposed equity fund raise to be launched today predominantly to fund the operational costs of the business as it seeks to grow revenues through the commercial development of the Company's portfolio of its core products

Note not all numbers may cast due to roundings

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 (MAR).

Ends

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Chairman's Statement

I am pleased to present my report as Chairman of Itaconix plc. Itaconix is a specialty chemicals business that designs and manufactures high performance, cost effective and sustainable ingredients that are key components of products for use in the personal care, homecare and industrial sectors. The Company is a world leader in developing and producing bio-based polymers from itaconic acid, combining the versatile chemistry of itaconic acid with breakthrough manufacturing economics.

Strategy and implementation

In 2017, Itaconix consolidated its strategy with an increased focus on the commercialisation of products manufactured from itaconic acid using a combination of both in-house and external production facilities. As a growing company, Itaconix recognised the challenge of effectively accessing its markets in a timely fashion. To address this, it concluded collaborative partnerships with leading industry players including AkzoNobel and Croda in 2017 with the aim of accelerating market adoption of its products. Itaconix is also building a distribution infrastructure for its personal care products. The Company is well positioned to play a significant role in the restructuring of many supply chains to improve the performance and environmental sustainability of consumer products.

Business performance

Disappointingly, revenue growth in 2017 was slower than expected. One of the key characteristics of the specialty chemicals market is that the ingredients are critical components in customers products. Consequently, customers conduct extensive testing to verify the claimed benefits and also confirm that there are no unexpected side effects resulting from the use of new ingredients. In the case of Itaconix, this customer evaluation has taken longer than expected. Nevertheless, the Company was successful in initiating and growing sales for both Itaconix®ZINADOR™ (to Croda) and RevCare NE 100S in 2017. The Company looks forward to reporting further product launches and growing revenues in the future.

Shareholder Engagement

The Notice of Annual General Meeting ("AGM") that accompanies this Annual Report sets out the business for our forthcoming AGM and we encourage all our shareholders, large or small, to attend and participate.

Corporate governance

The Board continues to monitor and, where appropriate, amend governance and control structures, including for example a comprehensive business risk assessment and mitigation process, and a medium term strategic planning cycle that is used to focus business priorities and drive the annual budget process. The Board meets regularly during the year to monitor business performance and is provided with timely and relevant information before each meeting. The London Stock Exchange is consulting on proposed rule changes that would require AIM-listed companies to comply or explain reasons for non-compliance with a recognised corporate governance code. Traditionally, the Board has chosen to apply the recommendations contained in the Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 ("QCA guidelines") taking into consideration Itaconix's size and stage of operations, and the Board will take appropriate action as a result of any rule changes that affect the Company. The Group's disclosures in the full 2017 annual report in respect of corporate governance include expanded disclosures on the work of the committees of the Board, and information on Directors' remuneration is also provided.

Attention should also be drawn to proposed Board changes described elsewhere in this report, designed to align the business more closely to its markets and customers.

Conclusion

2017 has been a year in which major partnerships have been established, but revenue growth has been slower to develop than anticipated. I and the rest of the Board firmly believe that the key channels to market are in place and Itaconix is well placed to continue delivery against its strategy. The Board recognises that the business is still at an early stage in its commercial development and is not expected to become profitable in 2018. The Company is also at this time actively seeking to close a refinancing to support the continuation of its operations, which the Board expects will be concluded shortly. In due course I intend to retire from the Board. Upon closure of the refinancing, I will step down from the role of Non-Executive Chairman and Dr Kevin Matthews will assume the role of Executive Chairman until the end of 2018, but I will remain an independent non-Executive Director until a suitable replacement can be found.

Dr Bryan C Dobson, Chairman

Chief Executive's Review

Overview

We started 2017 with a major repositioning of the business following the changes in 2016 and to emphasise this new focus the Company changed its name to Itaconix plc. Itaconix's strategy is to use its expertise in the design and manufacture of high performance polymers to develop ingredients that offer cost competitive performance improvements to its customers' products. Itaconix is a leader in bio-based polymers made from itaconic acid (which is derived from corn starch) using an established proprietary process with break-through economics, that produce unique or enhanced product performance at a competitive price. Itaconix has a portfolio of functional ingredients that are starting to be used in a range of consumer products in homecare, personal care and industrial applications.

Increasing consumer expectations, regulatory changes and environmental best practice are resulting in major consumer product companies seeking to improve product performance whilst replacing traditional ingredients with sustainable alternatives. This trend is widespread, with notable examples being Unilever, P&G and L'Oreal, and many of the major specialty chemicals companies including AkzoNobel and Solvay have signed up to an initiative called "Together for Sustainability" designed to improve the sustainability of chemical industry supply chains. We believe that Itaconix is strategically well aligned with this long term mega-trend and positioned to play a significant future role in the redesign of many supply chains to improve both the performance and the environmental sustainability of consumer and industrial products.

Itaconix's target markets have common themes that act as drivers of change and product reformulation, as outlined below:

> *Regulations:*
> Tightening regulations continue to drive the phasing out of older product technologies which are unsafe for humans and/or the environment and offer opportunities for replacement products. Particular areas of focus for Itaconix are the replacement of phosphates in laundry and automatic dish wash ("ADW").
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> *Performance:*
> Consumers continue to demand more effective products or cheaper products with the same performance. Itaconix has product technologies that can either improve performance (such as in the licence to tremco-illbruk for construction sealants), make more efficient use of ingredients (such as the encapsulation of bleach for the laundry or ADW market) or enable new product formats (such as a bio-based malodour product for homecare).
>
> *Sustainability*:
> Increasing concerns regarding the environment are reflected in a strong consumer trend towards bio-based products, particularly in markets such as personal care, or products that save energy or materials. Itaconix has identified these drivers and has launched a bio-based hair styling polymer for personal care and has licensed technology to Solvay enabling low-temperature bleach performance in laundry and ADW.

Currently, we estimate that our product range is addressing global markets with an estimated aggregate turnover of $1.4bn per annum, but as a small growing company we recognise the challenge of effectively accessing these markets in a timely fashion. To address this, Itaconix is actively building collaborative partnerships with leading industry players such as AkzoNobel, Croda and Solvay, with the aim of accelerating market adoption of Itaconix's products. In addition, Itaconix has built a distribution network across 14 countries as a channel to market for the personal care business area.

In October 2016 we set out a series of milestones that we expected to achieve in 2017, with the overarching intention to secure partnership deals and revenue starts; in effect establishing channels to market and first sales of products. Whilst some of these milestones have been delayed or abandoned compared to our initial expectations, we have made overall progress. The table below provides a summary.

	Product	Milestones in next 12 months (from Oct 2016)	2017 milestone status
1	Itaconix® DSP™, CHT™	Revenue growth in 2017. Adoption in ADW by major private label house or equivalent	H1 revenue mainly based on Itaconix® DSP™. Limited revenue growth from CHT™. AkzoNobel Chelates Application Agreement.
2	RevCare NE ™	Appointment of distributors First sales and revenue growth in 2017	Distributors appointed in multiple jurisdictions. First sales with use in first consumer products.
3	Itaconix ® ZINADOR™	Sign commercial partner Revenue growth in homecare and industrial	Croda Supply and Joint Marketing Agreement with global marketing rights. Repeat sales to Croda delivering revenue growth.
4	Licences (Royalty)	First revenues from Solvay PAP licence Secure new licences	Solvay notified ITX of first, Eureco™ RP103 sales in H2. Repeat orders awaited.
5	RevCoat Bond ™	Appointment of distributors Sign-up lead customer and revenue growth in 2017	Licence to tremco-illbruk in January 2018.
6	Itaconix® TSI™, XDP™	Sign-up lead customer, first sales	AkzoNobel Performance Additives Application Agreement. First sales were not delivered.
7	RevCap FE™	Sign two lead customers Revenue growth	Not delivered.

Although we have made a meaningful start, the most significant commercial challenge facing the business remains getting our products to their respective markets to generate revenue as quickly as practicable. Given the developments and changes made in 2017, we believe that we are positioned for further revenue growth from 2018.

Milestone Details

Including developments after the period end, management is pleased to report that Itaconix has continued to deliver on its strategic milestones:

Itaconix® DSP™, CHT™

AkzoNobel – Chelates Application Agreement - On 5 September 2017, Itaconix announced the signing of an application agreement with AkzoNobel's Specialty Chemicals unit to evaluate and develop innovative bio-based chelates for use in the consumer and industrial detergents and cleaners markets. AkzoNobel is a world leader in chelation products and bio-based chelates such as Itaconix® DSP™ and CHT™ show promise for use in laundry detergents, bathroom cleaners and other consumer and commercial cleaning products, and are replacements for phosphates which are being phased out due to environmental concerns.

On 16 May 2018, Itaconix announced that following a successful technical and regulatory evaluation, AkzoNobel's Chelates' business had formally notified Itaconix of its intention to enter into a joint marketing effort related to Itaconix's innovative bio-based chelates for use in the consumer and industrial detergents and cleaners markets. There are still outstanding commercial details to be finalised, with an agreement expected to be concluded before the end of 2018. The goal is to establish a strong multi-year relationship to deliver Itaconix's innovative bio-based chelates to customers worldwide, thereby supporting the development of high performance, sustainable, consumer products using Itaconix technology.

In Q1 2018, the Group also completed the development of a new chelant, Itaconix® CHT™122. This ingredient was designed to deliver improved performance for automatic dishwash (ADW) applications with reduced input costs, thereby providing more pricing flexibility at higher volumes. We have subsequently satisfied our first order for this new material for use in a new formulation with a novel format targeted at the North American ADW private label market. We are optimistic of repeat orders based on success of this new format on the retailer's shelves.

RevCare™ - During 2017 and 2018 year to date, distribution relationships have been established in the UK, USA, Canada, Germany, France, Italy, Spain, Poland, Brazil, Columbia, Finland and the Baltics, Greece, and Turkey, as well as the key Asian markets of South Korea and Japan, to service the personal care market. In parallel Itaconix has developed direct relationships with several global cosmetics houses. Following further market development, we see that RevCare*™* NE has application in hair styling and frizz control and the product has already been adopted for use in hair-styling products in Italy, Germany, Spain and South Korea. These early sales tend to be to innovative lead adopters with boutique brands and hence volumes are modest, but the fact that repeat sales are now being made in multiple territories is encouraging. We have also launched two new products: RevCare™ HP is designed to protect the hair from heat damage during styling and drying; and RevCare™ MC neutralises malodours, with potential applications in deodorants and cosmetics treatments such as hair colouring, perms or depilatory creams.

Itaconix ® ZINADOR™ - Croda – As announced on 23 January 2017, Itaconix signed an exclusive global supply and joint marketing agreement with Croda in respect of its polymer-based odour removal additive ZINADOR. As a 100% bio-based product that is readily soluble in water and does not leave any residual materials, ZINADOR meets key unmet customer needs in the growing consumer and industrial markets for odour control. Under the terms of the agreement, the parties are working together to grow and supply worldwide demand for ZINADOR. Itaconix is producing ZINADOR for Croda, which is marketing and selling ZINADOR in household, municipal, animal and industrial applications, subject to certain terms and conditions. Itaconix will continue providing its technical and marketing expertise to jointly expand applications and geographic opportunities for ZINADOR with Croda. We have already satisfied a repeat order from Croda following their global launch in the first half of 2017.

Licences

Solvay – In the second half of 2017, Solvay made its first sales of the encapsulated specialty PAP bleach product Eureco™ RP103 (“RP103”), manufactured using technology Itaconix licensed to it in 2014. In addition, Itaconix announced on 16 October 2017 that Società Chimica Bussi S.p.A. (“SCB”) had decided to invest in new manufacturing facilities for RP103. Solvay sold its Bussi site to SCB in 2016, including the manufacturing facility for RP103, but maintains its role of exclusive distributor of Eureco™ products worldwide, except in Italy. Building on the actions initiated by Solvay and as a result of growing commercial interest, SCB decided to support the availability of encapsulated Eureco™ products that have enhanced stability. PAP is already well-known among the consumer and professional detergents markets for its effectiveness in removing stubborn stains, bleaching in compact product formulations, and the elimination of malodour, germs, bacteria and fungi on both textiles and hard surfaces. Repeat orders from Solvay are awaited.

Tremco-illbruk – On 25 January 2018, Itaconix announced that it had licensed certain non-core polymer assets developed under a joint development agreement to tremco-illbruck Limited, an RPM International Inc. company. Under the terms of the deal, tremco-illbruck will acquire the rights to certain Itaconix polymer technology to improve the performance of its construction sealant products. As consideration for the licence and assignment, tremco-illbruck will make royalty payments to Itaconix on net sales of derived products incorporating Itaconix technology with annual minimums, and the first minimum royalty payments were received in Q1 2018.

Itaconix® TSI™, XDP™

AkzoNobel – JDA and Performance Additives Application Agreement – As announced on 27 January 2017, Itaconix signed a joint development agreement with AkzoNobel to advance commercial collaborations in certain applications for its itaconic acid polymer technology platform. The agreement establishes a broad operating framework for the parties to jointly identify, develop and commercialise new polymers using Itaconix’s patented technology. On 26 July 2017, Itaconix announced the signing of its first application area agreement with AkzoNobel’s Performance Additives unit, developing applications for Itaconix bio-based polymers to be used in the coatings and construction industries, representing large and potentially important markets for the Group’s future product portfolio.

In the first quarter of 2018, Itaconix developed a new grade of Itaconix® TSI™ with enhanced dispersion properties that is gaining significant customer interest in the cleaning and industrial markets.

Organisational Enhancement

In anticipation of the growing commercial engagement described above, Itaconix undertook a $1m investment to upgrade its polyitaconate manufacturing facility, quadrupling previous capacity. Whilst this investment programme was started in 2016, after successful commissioning, the new facility came on line in March 2017.

In 2017, we also realigned the cost base to support the commercialisation of our existing product portfolio, refocusing more of our product development resource on supporting our customers and delivering commercial goals. On 18 May 2017, Itaconix announced that it was implementing operational changes to the Group and resized the R&D team.

Most recently, in the second half of 2018 the UK activities of the business will now be consolidated into its US base and manufacturing facility in New Hampshire, USA. This consolidation is expected to reduce Group operating expenses to around £2.2m per annum from 2019 and is driven by a further focus on growing sales of its core products and manufacture, as Itaconix moves out of the product development phase. With the axis of the Company switching to the USA certain Board changes are anticipated: John Shaw, previously President of Itaconix’s US operations, will be appointed to the role of CEO; Kevin Matthews will step down from his current role of CEO and assume the role of Executive Chairman until the end of 2018 to help John Shaw transition the business and provide a link to the UK shareholder base; Bryan Dobson will step down from the role of Non-executive Chairman but will remain an independent non-executive director until a suitable successor is appointed at which point he will retire from the Board; Julian Heslop will remain an independent non-executive director until a suitable successor is appointed at which point he will retire from the Board; and Robin Cridland will step down as CFO and retire from the Board at the end of August 2018 (with an interim CFO appointed until a new US-focused full time CFO is appointed in due course), all such changes being subject to the closing of a refinancing early in the second half of 2018 and associated shareholder approvals.

Alkalon

Alkalon A/S ("Alkalon") is the Denmark-based nicotine gum business that the Group sold its nicotine gum business to in 2016, in return for a 15% equity holding in the resultant combined business on closing of the transaction.

During 2017 there were a number of corporate transactions that the Group participated in to support Alkalon and protect the value of its investment:

- It contributed its pro rata share (DKK525k or around GBP60k) of a DKK3.5m (around GBP410k) new share issue
- It contributed its pro rata share (DKK375k or around GBP45k) of a DKK2.5m (around GBP295k) shareholder loan
- Jointly and severally with all the other shareholders, it provided a guarantee to Alkalon's contract manufacturer ("CMO") up to a maximum EUR200k (around GBP175k), callable should Alkalon not meet its payment obligations to the CMO. The guarantee expired on 15 February 2018 and had not been called to any extent at expiry
- As a result of certain commercial milestones being achieved in the business the Group sold to Alkalon, it was issued an additional 184k Alkalon ordinary shares. As a result, the Group's interest in Alkalon at 31 December 2017 was 17.36%.

During 2018 to date, there were a number of corporate transactions that the Group also participated in, in order to continue to support Alkalon and protect the value of its investment:

- It contributed DKK217k (around GBP25k) to a new share issue totaling DKK750k (around GBP90k). As a result of one shareholder not participating in the raise, the Group's interest in Alkalon after this transaction increased to 22.5%
- Jointly and severally with all the other shareholders, it provided guarantees to Alkalon's CMO up to a maximum EUR800k (around GBP700k), callable should Alkalon not meet its payment obligations to the CMO and/or not meet minimum annual orders for product. These guarantees reduce by EUR125k (around GBP110k) every year for 4 years, down to a maximum of EUR300k (around GBP260k). The board of Alkalon does not expect these guarantees to be called, and to date they have not been called.

Financial Review

Cash flow

Operating cash flow

Net cash outflow from operating activities was stable year on year at £4,659k (2016: £4,728k). Whilst the 2016 outflow included £1,250k in respect of the divested Nicotine Gum business segment and there was no outflow attributed to this in 2017, there were approximately equivalent additional operating outflows in respect of the Specialty Chemicals business segment, including the full year effect of running the Itaconix Corporation business acquired in mid 2016, i.e. the Nicotine Gum outflows were effectively switched to Specialty Chemicals in line with the Group's strategic focus.

Investing cash flow

Excluding existing funds withdrawn from term deposits, investing activity cash outflow was £495k (2016: £2,470k), the reduction of £1,975k being primarily accounted for by the £2,043k upfront payment in 2016 as part of the acquisition of Itaconix Corporation (net of cash acquired). The main component of the 2017 outflows was purchase of property, plant and equipment of £436k (2016: £518k), both items including the investment in the US manufacturing facility that was spread between 2016 and 2017.

Financing cash flow

Net cash outflow from financing activities was £29k (2016: an inflow of £5,473k). The difference of £5,457k primarily reflects the net proceeds of the refinancing completed in July 2016 with existing and new institutional investors, less the transaction costs of the share issuance to Itaconix Corporation shareholders. There was no Group refinancing activity in 2017, there being a £16k inflow relating to employee share option exercises and a £45k outflow being a loan to Alkalon.

As a net result of the cash flows explained above, the balances on hand at the year end were cash, cash equivalents and short term deposits of £3,606k (2015: £8,789k).

Operations

Revenue and gross profit

Revenue for the period from continuing operations grew to £553k (2015: £285k), being primarily a full year of sales of the products acquired with Itaconix Corporation Itaconix® DSP™ and Itaconix® ZINADOR™ 22L (but also including small but promising first sales of the legacy Revolymer product RevCare™ NE 100S). Resulting gross profit was £221k (2016: £55k), an improvement in gross margin to 40% (2016: 19%).

Other operating income

Other operating income increased to £112k (2016: £38k), primarily due to an increase in collaborative research income, whilst grant income for the year was stable compared to 2016.

Administrative expenses

The administrative expenses (including research and development) of continuing operations were £5,507k (2016: £5,275k). The increase in expenses is primarily as a result of inclusion of the US cost base for a full year compared to half the year in 2016, although to try to minimise this impact savings in development and professional advisory fees were made in 2017, as previously announced.

Finance income

Interest receivable on bank deposits and investments was £1k (2016: £58k), the reduction reflecting both the lower interest rates available (if any) on deposits and the reduced balance of cash, cash equivalents and short term deposits compared to the prior period.

Group operating loss

The Group operating loss was £5,174k (2016: £5,182k), reflecting the net effect of the above items.

Loss before taxation

The loss before tax from continuing operations was £11,868k (2016: £5,639k). Whilst this includes a reduced share of loss of associate of £214k (2016: £508k), the main reasons for the £6,229k increase in loss before tax are the following significant non cash exceptional items: (i) exceptional income of £2,511k (2016: nil) as a result of reducing the carrying value of the contingent consideration payable to certain of the former shareholders of Itaconix Corporation; and (ii) an exceptional expense of £8,992k (2016: nil) as a result of impairing in full the goodwill and intellectual property arising on acquisition of Itaconix Corporation, both following lower than expected revenue and profit growth from the products acquired with Itaconix Corporation and corresponding reduced Board approved forecasts as at the date of this report. The net effect of these two items is an exceptional non cash charge of £6,481k accounting for the majority of the difference in loss before tax year on year.

Whilst the board believes that the Group is well positioned to deliver significant revenue and profit growth in the medium to longer term, it is anticipated that this will be delivered over a longer period of time than previously envisaged (as has already been reflected in the market forecasts published to date). Goodwill is calculated as the difference between the value in use of the acquired entity and the net assets of that entity. The value in use is estimated using discounted cash flow techniques based on medium term board approved forecasts, and consequently delays in revenue and earnings can have a material effect on the value of goodwill and other intangibles.

Taxation

The tax credit for the year was £465k (2016: £531k). This includes a credit in respect of deferred tax relating to IP amortised during the year of £107k (2016: nil). Excluding the amortisation related credit, the reduction reflects the full year impact of a geographic shift in the cost structure following the acquisition of Itaconix Corporation to a UK and US mix, from a primarily UK base prior to the acquisition, with a corresponding impact on qualifying expenditure for R&D tax credits. In addition, a recognised deferred tax liability of £1,229k in respect of the intellectual property fully impaired at the year end was credited, and is disclosed separately due to its size.

Loss for the year

Accordingly, the loss for the year from continuing operations was £10,174k (2016: £5,108k), and the basic and diluted loss per share from continuing operations was 12.9p (2016: 7.3p).

Discontinued operations

The profit after tax from discontinued operations was £33k (2016: a loss after tax of £608k), primarily reflecting the reversal of a portion of a sales returns provision no longer required.

Balance sheet items - intangible assets

As a result of the impairment reviews referenced above, the Group now has no intangible assets arising on the acquisition of Itaconix Corporation (2016: £10,124k) following the impairment in full of goodwill and intellectual property. The constituents in 2016 were intellectual property of £3,471k and goodwill of £6,653k.

Balance sheet items – non-current liabilities

The Group has £607k of non-current liabilities arising on acquisition of Itaconix Corporation (2016: 4,872k), comprised of provisions of £607k (2016: 3,414k) and a deferred tax liability of nil (2016: 1,458k). The provisions represent the fair value of the deferred consideration payable in ordinary shares to the former shareholders of Itaconix Corporation, and reflect reduced Board approved forecasts as referenced above. The deferred tax liability in 2016 relates to the intellectual property acquired with Itaconix Corporation. Since the intellectual property was written off in 2017, there is no corresponding deferred tax liability.

Outlook

As a result of progress in establishing channels to market and sales of new products in 2017 and the first half of 2018, despite revenue growth being slower than expected in the short term, the Board is confident, subject to the completion of the refinancing currently in process, that the Company is now well positioned to deliver further revenue growth from 2018.

Dr Kevin Matthews, Chief Executive Officer

Going Concern

Current position

The Group made a loss for the year of £10,141k, had Net Current Assets at the period end of £3,597k and a Net Cash Outflow from Operating Activities of £4,659k. Primarily, the Group meets its day to day working capital requirements through existing cash resources and had on hand cash, cash equivalents and short term deposits at the balance sheet date of £3,606k (2016: £8,789k). The Group does not have sufficient cash resources to fund operations for a period of at least 12 months from the date of the financial statements without the raising of additional capital.

Restructuring and fund raise

Subsequent to the year end, the Group has reduced its expenditure and restructured its operations. It is in an advanced stage of an accelerated process for the raising of new equity capital from existing and new investors with a target minimum raise of £3.0m, net of transaction expenses. The Directors expect this exercise to close during August 2018, subject to investor interest and appropriate shareholder approvals. Should this occur then the Group will have sufficient cash resources to fund its business for at least 12 months from the date of the signing of these accounts and therefore will be a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

A material uncertainty exists as a result of the dependency on the completion of the ongoing refinancing (to a minimum £3.0m net of expenses) that casts significant doubt on the Group's ability to continue as a going concern.

In order to justify the Directors position summarised above, trading and cash flow forecasts modelling a number of scenarios were prepared for the period through to the end of 2022. The forecasts include the receipt of minimum net proceeds from the ongoing refinancing of £3.0m, and also reflect the status of the Group's current activities, informed by the intent of the Board to continue to successfully develop its operations and move to being cash generative by 2022.

Material uncertainty on the raising of finance

Subject to the closure of the ongoing refinancing in line with the assumptions above, the forecasts indicate that the Group will have sufficient financial resources to continue to fund the business, based on the current scope of operations, into 2020 and meet its liabilities as they fall due. As noted above, the success of the business is dependent on customer adoption of our products in order to increase revenue and profits growth. Inability to deliver this could result in the requirement to raise additional funds in the last quarter of 2019.

In the event that the ongoing refinancing is not completed and/or if new investors do not provide the required minimum financial support, the going concern basis might not be valid. Therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. In such circumstances adjustments may need to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which may arise and to reclassify non-current and current assets. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** £'000	2016 £'000
Continuing operations			
Revenue	2	**553**	285
Cost of sales		**(332)**	(230)
Gross profit		**221**	55
Other operating income		**112**	38
Administrative expenses		**(5,507)**	(5,275)
Group operating loss		**(5,174)**	(5,182)
Finance income		**1**	51
Exceptional income on revaluation of contingent consideration	8	**2,511**	-
Exceptional expense on impairment of intangible assets	6	**(8,992)**	-
Share of loss of associate	5	**(214)**	(508)
Loss before tax from continuing operations		**(11,868)**	(5,639)
Release of previously recognised deferred tax liability	3	**1,229**	-
Taxation credit	3	**465**	531
Loss for the year from continuing operations		**(10,174)**	(5,108)
Profit / (Loss) after tax for the year from discontinued operations		**33**	(608)
Loss for the year		**(10,141)**	(5,716)
Basic loss per share	4	**(12.9)p**	(8.2)p
Diluted loss per share	4	**(12.9)p**	(8.2)p
Basic loss per share from continuing operations	4	**(12.9)p**	(7.3)p
Diluted loss per share from continuing operations	4	**(12.9)p**	(7.3)p

The discontinued operations relate to the nicotine gum business, the divestment of which was completed on 31 October 2016 and announced on 2 November 2016.

The continuing operations relate to the specialty chemicals business of the Group, including Itaconix Corporation acquired on 20 June 2016.

Further details of the business during the year are provided in the Strategic Report and Notes to the Financial Statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	£'000	£'000
Loss for the year	**(10,141)**	(5,716)
Items that will be reclassified subsequently to profit or loss		
Exchange differences in translation of foreign operations	**(543)**	1,439
Total comprehensive loss for the year, net of tax	**(10,684)**	(4,277)
Atributable to:		
Equity holders of parent	**(10,684)**	(4,277)

CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT 31 DECEMBER 2017

		Group		Company	
		2017	2016	**2017**	2016
	Notes	**£'000**	£'000	**£'000**	£'000
Non-current assets					
Property, plant and equipment		**980**	803	**–**	–
Intangible assets	6	**–**	10,124	**–**	–
Trade and other receivables		**–**	–	**4,820**	3,446
Investment in subsidiary undertakings		**–**	–	**565**	6,078
Investment in associate undertakings	5	**–**	145	**–**	–
		980	11,072	**5,385**	9,524
Current assets					
Inventories	7	**271**	210	**–**	–
Trade and other receivables		**706**	835	**283**	78
Cash and cash equivalents		**3,606**	8,789	**2,638**	4,424
		4,583	9,834	**2,921**	4,502
Total assets		**5,563**	20,906	**8,306**	14,026
Financed by					
Equity shareholders' funds					
Equity share capital	9	**787**	787	**787**	787
Equity share premium		**28,603**	28,588	**28,603**	28,588
Own shares reserve		**(4)**	(5)	**(4)**	(5)
Merger reserve		**20,361**	20,361	**2,455**	2,455
Share based payment reserve		**6,404**	6,220	**597**	413
Foreign translation reserve		**896**	1,439	**-**	–
Retained earnings		**(53,077)**	(42,936)	**(24,803)**	(21,673)
Total equity		**3,970**	14,454	**7,635**	10,565
Non-current liabilities					
Provisions	8	**607**	3,414	**607**	3,414
Deferred tax liability	3	**-**	1,458	**–**	–
		607	4,872	**607**	3,414
Current liabilities					
Trade and other payables		**986**	1,580	**64**	47
Total liabilities		**1,593**	6,452	**671**	3,461
Total equity and liabilities		**5,563**	20,906	**8,306**	14,026

The loss for the year for the Company amounted to £3,130k (2016: £5,297k). The financial statements of Itaconix plc, registered number 08024489, were approved by the Board of Directors for issue on 28 June 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2017

	Equity share capital £'000	Equity share premium £'000	Own shares reserve £'000	Merger reserve £'000	Share based payment reserve £'000	Foreign translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	567	23,220	(5)	17,626	6,084	–	(37,168)	10,324
Loss for the year	–	–	–	–	–	–	(5,716)	(5,716)
Other comprehensive income	–	–	–	–	–	1,439	–	1,439
Shares issued to the market in the year	157	5,645	–	–	–	–	–	5,802
Shares issued as consideration for Itaconix in the year	63	–	–	2,735	–	–	–	2,798
Transaction costs	–	(278)	–	–	–	–	(52)	(330)
Exercise of share options	–	1	–	–	–	–	–	1
Share based payments	–	–	–	–	136	–	–	136
At 1 January 2017	787	28,588	(5)	20,361	6,220	1,439	(42,936)	14,454
Loss for the year	–	–	–	–	–	–	(10,141)	(10,141)
Other comprehensive income	–	–	–	–	–	(543)	–	(543)
Exercise of share options	–	15	1	–	–	–	–	16
Share based payments	–	–	–	–	184	–	–	184
At 31 December 2017	**787**	**28,603**	**(4)**	**20,361**	**6,404**	**896**	**(53,077)**	**3,970**

COMPANY STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2017

	Equity share capital £'000	Equity share premium £'000	Own shares reserve £'000	Merger reserve £'000	Share based payment reserve £'000	Foreign translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	567	23,220	(5)	(280)	277	–	(16,324)	7,455
Loss for the year	–	–	–	–	–	–	(5,297)	(5,297)
Shares issued to the market in the year	157	5,645	–	–	–	–	–	5,802
Shares issued as consideration for Itaconix in the year	63	–	–	2,735	–	–	–	2,798
Transaction costs	–	(278)	–	–	–	–	(52)	(330)
Exercise of share options	–	1	–	–	–	–	–	1
Share based payments	–	–	–	–	136	–	–	136
At 31 December 2016	787	28,588	(5)	2,455	413	–	(21,673)	10,565
Loss for the year	–	–	–	–	–	–	(3,130)	(3,130)
Other comprehensive income	–	–	–	–	–	–	–	–
Exercise of share options	–	15	1	–	–	–	–	16
Share based payments	–	–	–	–	184	–	–	184
At 31 December 2017	**787**	**28,603**	**(4)**	**2,455**	**597**	–	**(24,803)**	**7,635**

The reserves described above have the purposes described below:

Own shares reserve
The reserve records the nominal value of shares purchased and held by the Employee Benefit Trust to satisfy the future exercise of options under the Group's share option schemes.

Merger reserve
This reserve arose as a result of a common control business combination on the formation of the Group. The premium on the issue of shares as part of a business combination is credited to this reserve.

Share based payment reserve
This reserve records the credit to equity in respect of the share based payment cost.

Foreign exchange translation reserve
This reserve arises on the translation of the assets and liabilities of overseas subsidiaries.

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2017

		Group		Company	
		2017	2016	**2017**	2016
	Notes	**£'000**	£'000	**£'000**	£'000
Net cash outflow from continuing operating activities	10	**(4,659)**	(3,478)	**(85)**	(581)
Net cash outflow from discontinued operating activities		**–**	(1,250)	**–**	–
Net cash outflow from operating activities		**(4,659)**	(4,728)	**(85)**	(581)
Interest received		**1**	91	**–**	88
Purchase of property, plant and equipment		**(436)**	(518)	**–**	–
Acquisition of subsidiary, net of cash acquired		**–**	(2,043)	**–**	–
Investment in associate undertaking		**(60)**	–	**–**	–
Funds withdrawn from term deposits		**–**	7,000	**–**	7,000
Net cash inflow / (outflow) from investing activities		**(495)**	4,530	**-**	7,088
Cash received from issue of shares		**16**	5,525	**16**	5,525
Transactions costs paid on the issue of shares		**–**	(52)	**–**	(52)
Cash loaned to subsidiary undertakings		**–**	**–**	**(1,717)**	(7,784)
Cash loaned to associate undertaking		**(45)**	–	**–**	**–**
Net cash inflow / (outflow) from financing activities		**(29)**	5,473	**(1,701)**	(2,311)
Net inflow / (outflow) in cash and cash equivalents		**(5,183)**	5,275	**(1,786)**	4,196
Cash and cash equivalents at beginning of year		**8,789**	3,514	**4,424**	228
Cash and cash equivalents at end of year		**3,606**	8,789	**2,638**	4,424

Notes to the Financial Statements

1. Basis of preparation

English law requires that the Group's consolidated financial statements for the year ended 31 December 2017 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 31 December 2016 but is derived from those accounts.

Statutory accounts for 2016 have been delivered to the registrar of companies. The auditor, Ernst & Young LLP, has reported on the 2017 accounts; the report (i) was unqualified, (ii) did not include a reference to any matters which the auditor draw attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The statutory accounts for 2017 will be delivered to the registrar of companies in due course. The auditors have reported on these accounts; their report included a material uncertainty related to going concern without qualifying their opinion and does not include a statement under either section 498(2) or (3) of the Companies Act 2006.

The Group financial statements are presented in GBP because this is the currency of the primary economic environment in which the Group currently operates, and all values are rounded to the nearest thousand (£'000) unless otherwise indicated. The financial statements have been prepared on the historical cost basis, except for contingent consideration which has been measured at fair value. The financial statements have been prepared on a going concern basis which the Directors, having undertaken appropriate investigation as summarised below, believe continues to be appropriate.

Itaconix plc has been a loss making business in each year of its existence to date. Whilst it expects to deliver its business plan of becoming a profitable specialty chemicals company in the medium term, it currently relies on its shareholders to fund the business. Uncertainties that are specific to Itaconix's business model include that revenue and profit growth are dependent on its products being incorporated into its customer's products, and the rate at which this occurs is inherently difficult to predict.

Current position

The Group made a loss for the year of £10,141k, had Net Current Assets at the period end of £3,597k and a Net Cash Outflow from Operating Activities of £4,659k. Primarily, the Group meets its day to day working capital requirements through existing cash resources and had on hand cash, cash equivalents and short term deposits at the balance sheet date of £3,606k (2016: £8,789k). The Group does not have sufficient cash resources to fund operations for a period of at least 12 months from the date of the financial statements without the raising of additional capital.

Restructuring and fund raise

Subsequent to the year end, the Group has reduced its expenditure and restructured its operations. It is in an advanced stage of an accelerated process for the raising of new equity capital from existing and new investors with a target minimum raise of £3.0m, net of transaction expenses. The Directors expect this exercise to close during August 2018, subject to investor interest and appropriate shareholder approvals. Should this occur then the Group will have sufficient cash resources to fund its business for at least 12 months from the date of the signing of the full financial statements and therefore will be a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

A material uncertainty exists as a result of the dependency on the completion of the ongoing refinancing (to a minimum £3.0m net of expenses) that casts significant doubt on the Group's ability to continue as a going concern.

In order to justify the Directors position summarised above, trading and cash flow forecasts modelling a number of scenarios were prepared for the period through to the end of 2022. The forecasts include the receipt of minimum net proceeds from the ongoing refinancing of £3.0m, and also reflect the status of the Group's current activities, informed by the intent of the Board to continue to successfully develop its operations and move to being cash generative by 2022.

Material uncertainty on the raising of finance
Subject to the closure of the ongoing refinancing in line with the assumptions above, the forecasts indicate that the Group will have sufficient financial resources to continue to fund the business, based on the current scope of operations, into 2020 and meet its liabilities as they fall due. As noted above, the success of the business is dependent on customer adoption of our products in order to increase revenue and profits growth. Inability to deliver this could result in the requirement to raise additional funds in the last quarter of 2019.

In the event that the ongoing refinancing is not completed and/or if new investors do not provide the required minimum financial support, the going concern basis might not be valid. Therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. In such circumstances adjustments may need to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which may arise and to reclassify non-current and current assets. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

2. Revenue

Revenue recognised in the Group income statement is analysed as follows:

	2017	2016
	£'000	£'000
Sale of goods	**553**	285
Revenue	**553**	285

Geographical information

	2017	2016
	£'000	£'000
Europe	**249**	140
North America	**296**	145
Asia	**8**	–
	553	285

The revenue information is based on the location of the customer.

Segmental information

The revenue information above is derived from the continuing operations and excludes the Nicotine Gum segment that was disposed of during the previous year.

The Group therefore has one segment - the Specialty Chemicals segment which designs and manufactures proprietary specialty polymers to meet customers' needs in the home care and industrial markets and in personal care. This segment makes up the continuing operations above.

Net assets of the Group are attributable solely to Europe and the US.

3. Taxation

	2017	2016
	£'000	£'000
Corporation tax credits		-
Prior years' corporation tax credits	**23**	31
Reduction in deferred tax liability on IP amortisation	**107**	-
Current year corporation tax liability	**(5)**	-
Current year corporation tax credits	**340**	500
Corporation tax credits	**465**	531

During the year ended 31 December 2017, the Group had a taxation credit, excluding exceptional items disclosed separately, of £465k (2016: £531k), £340k of which relates to R&D tax credits estimated to be claimable on qualifying expenditure for the year ended 31 December 2017, but also including a provision of £5k for US taxation payable in respect of 2017 by the US subsidiary. The amount of R&D tax credits actually received in the year of £500k relates to an instalment payment of submitted R&D tax claims for the year ended 31 December 2016 leaving £23k still receivable for this period. The amount to be receivable of £340k relates to the R&D tax claim to be submitted for the year ended 31 December 2017. In 2016 the amount of R&D tax credits actually received in the year of £481k relates to submitted R&D tax claims for the year ended 31 December 2015 and the amount to be received of £500k relates to the R&D tax claim to be submitted for the year ended 31 December 2016.

Total tax on loss on ordinary activities

The tax for the year can be reconciled to the loss per the income statement as follows:

	2017	2016
	£'000	£'000
Loss before tax from continuing operations	**(11,868)**	(5,639)
Loss before tax from discontinued operations	**33**	(608)
Loss before tax relief	**(11,835)**	(6,247)
Loss on ordinary activities multiplied by standard UK corporation tax rate of 19.25% (2016: 20%)	**(2,278)**	(1,249)
Effects of:		
Disallowed expenses & non-taxable income	**1,117**	(324)
Capital allowances in excess of depreciation	**13**	1
Adjustments in respect of prior periods	**(23)**	(31)
Other timing differences	**-**	29
Surrender of tax losses for R&D tax credit	**451**	739
Movement in deferred tax not recognised	**702**	804
Deferred tax arising upon impairment and amortisation of intangible assets	**(1,336)**	-
Current year R&D tax credit	**(340)**	(500)
Total tax credit for the year	**(1,694)**	(531)
Release of previously recognised deferred tax liability (shown on the face of the income statement due to its nature)	**(1,229)**	-
Corporation tax credit	**(465)**	(531)

The Group tax credit relates to continuing operations in the year.

Deferred tax

The Group has the following net deferred tax asset which is not recognised:

	2017	2016
	£'000	£'000
Accelerated capital allowances	**(9)**	(21)
Tax losses carried forward	**5,943**	5,199
Share based payments	**160**	214
	6,094	5,392

The net deferred tax asset is not recognised as there is insufficient evidence of future taxable profits against which the asset will be available for offset.

The table below summaries deferred tax liabilities of the Group that are recognised:

	2017	Restated 2016*
	£'000	£'000
As at 1 January	**(1,458)**	–
Acquired Intellectual property	**–**	(1,224)
Reduction in deferred tax liability on IP amortisation	**107**	–
Foreign exchange movement	**122**	(234)
Elimination of liability due to full impairment of intangible assets	**1,229**	–
As at 31 December	**-**	(1,458)

*: to disclose separately the movement in the foreign exchange and the deferred tax liability on acquisition, that had previously been netted off in 2016

This liability in 2016 arose on the valuation of intangible assets recognised on consolidation of Itaconix Corporation. However, in respect of 2017, as a result of slower than expected sales growth of the products acquired with Itaconix Corporation and a consequent reduction in management forecasts, the acquired intellectual property has been fully impaired resulting in the corresponding elimination of the deferred tax liability. For further details see note 6.

Tax rate changes

Deferred tax has been calculated at the rate substantially enacted as at 31 December 2017, being 21% (2016: 17%). The deferred tax liability relating to the US intangibles acquired during the prior year has been calculated using the US company tax rate substantially enacted as at 31 December 2017, being 40% (2016: 40%).

In December 2017 the US tax rate was reduced to 26% which will affect future periods.

4. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	Continuing operations 2017	**Discontinued operations 2017**	**Total 2017**	Continuing operations 2016	Discontinued operations 2016	Total 2016
Loss	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Loss / (profit) for the purposes of basic and diluted loss per share (£'000)	**10,174**	**(33)**	**10,141**	5,108	608	5,716
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share ('000)	**78,715**	**78,715**	**78,715**	69,738	69,738	69,738
Basic and diluted loss per share	**12.9p**	**0.0p**	**12.9p**	7.3p	0.9p	8.2p

The loss for the period and the weighted average number of ordinary shares for calculating the diluted earnings per share for the period to 31 December 2017 are identical to those used for the basic earnings per share. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive.

5. Investment in associate undertakings

The Group's interest in Alkalon is accounted for using the equity method in the consolidated financial statements. The acquisition is considered to be a long term investment. The fair value of the investment at the period end was arrived at as described below.

	£'000
Assets transferred to Alkalon at completion on 31 October 2016	
Plant and machinery	26
Inventory	637
Value of investment at 31 October 2016	663
Share of loss of equity-accounted investees, net of tax	(2)
Loss on foreign exchange	(10)
Value of Alkalon investment before impairment at 31 December 2016	651
Impairment of investment	(506)
Fair value of Alkalon investment at 31 December 2016	145
Increase in investment at 18 May 2017	60
Share of loss of equity-accounted investees, net of tax	(214)
Gain on foreign exchange	9
Fair value of Alkalon investment at 31 December 2017	-

Name	Principal activity	Place of incorporation and operation	Proportion of ownership interest
Alkalon A/S (from 31 October 2016)	Trading Danish associate of Itaconix (U.K.) Ltd	Denmark	15%
Alkalon A/S (from 22 June 2017)	Trading Danish associate of Itaconix (U.K.) Ltd	Denmark	17%

As a result of certain commercial milestones being met during the year as laid out in the divestment agreements from 2016, the Group's interest in Alkalon was increased to 17.36% by the issuance of new equity.

The following table summarises financial information relating to Alkalon for the 2017 financial year:

	2017	2016
	£'000	£'000
Intangible fixed assets	**486**	528
Tangible fixed assets	**221**	60
Current assets	**1,844**	2,640
Current liabilities	**(2,070)**	(1,771)
Equity	**481**	1,457

	2017	2016
	£'000	£'000
Revenue	**3,475**	3,826
Cost of sales	**(3,232)**	(2,983)
Administration expenses	**(1,135)**	(871)
Finance income	**-**	1
Finance costs	**(66)**	(60)
Loss before tax	**(958)**	(87)
Income tax expense	**(347)**	–
Loss for the year (continuing operations)	**(1,305)**	(87)
Total comprehensive loss for the year	**(1,305)**	(87)
Group's share of loss for the year	**(218)**	(2)

The associate had no contingent liabilities or commitments as at 31 December 2017.

6. Intangible assets

Group	Goodwill £'000	Customer Relationships £'000	Intellectual Property £'000	Total £'000
Cost				
At 1 January 2016	–	–	–	–
Acquisitions through business combinations	5,662	29	3,031	8,722
Foreign exchange movements	991	–	578	1,569
At 1 January 2017	6,653	29	3,609	10,291
Acquisitions through business combinations	–	–	–	–
Foreign exchange movements	(577)	–	(313)	(890)
At 31 December 2017	**6,076**	**29**	**3,296**	**9,401**
Amortisation and impairment				
At 1 January 2016	–	–	–	–
Amortisation for the year	–	–	132	132
Impairment charge	–	29	–	29
Foreign exchange movements	–	–	6	6
At 1 January 2017	–	29	138	167
Amortisation for the year	–	–	267	267
Impairment charge	6,076	–	2,916	8,992
Foreign exchange movements	–	–	(25)	(25)
At 31 December 2017	**6,076**	**29**	**3,296**	**9,401**
Net book value				
At 31 December 2017	**-**	–	**-**	**-**
At 31 December 2016	6,653	–	3,471	10,124

Following the acquisition of Itaconix Corporation the intangible assets identified out of the purchase price allocation process were intellectual property and customer relationships, and the balance required to reconcile from the value of the net tangible assets to the fair value of the purchase price was goodwill.

Intellectual property arising from the acquisition of Itaconix Corporation has been amortised over a useful life of 13 years, based on the estimated life of the overall intellectual property portfolio acquired.

At the end of 2016 management conducted an impairment review of the customer relationships. On review, management noted that the lack of customer contracts could theoretically result in such relationships being terminated at short notice and so elected to impair them to nil. It was also noted that the initial value of these assets was immaterial. As at 31 December 2017 management remains of this view.

In 2017 the delivery of revenues from the relevant cash generating unit (CGU), namely the itaconic acid derived product (ITADP) business acquired in June 2016, was significantly lower than previously expected, and management forecasts for the CGU were also significantly reduced. Both these items constitute indicators of potential impairment of the remaining intangible assets, triggering a review for impairment as at 31 December 2017. In order to review the remaining intangible assets for impairment, the fair value of net assets (NAV) as at 31 December 2017 of the CGU was compared to the value in use (VIU) of the CGU as at 31 December 2017, as estimated using discounted cash flow (DCF) techniques in a manner consistent with the VIU assessment made for 2016, but based on updated management forecasts (as referenced above) and assumptions. Any shortfall in the VIU compared to the NAV forms the basis for impairment, whilst no impairment would be indicated to the extent that the VIU was equal to or greater than NAV.

Management re-ran its discount rate estimation as at 31 December 2017 and concluded an increased discount rate of 12.8% was required. It also reassessed the terminal value growth rate at 2%. This was then used in the VIU assessment based on the updated forecasts covering the period to 2022.

As a result of this analysis, full impairment of both goodwill and intellectual property was indicated as at 31 December 2017, and effected. Given this conclusion, no sensitivity analysis was considered necessary.

Acquisitions

On 20 June 2016, the Group acquired 100% of the voting rights of Itaconix Corporation, an unlisted company incorporated in the United Stated of America. Itaconix Corporation was a specialty polymer company that develops and commercialises polymers based on its proprietary itaconic acid polymerisation technology. The Group acquired Itaconix Corporation as its product offerings were complementary to Itaconix plc's own product lines, with differentiated functionality and high customer value in the Group's target markets. The fair value of the identifiable assets and liabilities of Itaconix Corporation as at the date of acquisition were:

	$'000	£'000
Fair value of consideration		
Cash consideration	3,000	2,043
Itaconix Plc shares (6,305,050 shares @ 44.38p)	4,000	2,798
	7,000	4,841
Contingent consideration		
Itaconix Plc shares at fair value	4,210	2,867
	11,210	7,708
Fair value of assets and liabilities acquired		
Non-current assets		
Property, plant and equipment	266	181
Intangible Fixed Assets		
Customer Relationships acquired	42	29
Intellectual Property acquired	4,451	3,031
	4,493	3,060
Current assets		
Inventories	220	150
Accounts receivable	68	46
Other current assets	88	60
Cash	1	1
	377	257
Current liabilities		
Trade and other payables	(333)	(228)
Non-current liabilities		
Deferred tax liability	(1,798)	(1,224)
Net assets acquired	3,005	2,046
Goodwill arising on acquisition (consideration less net assets acquired)	8,205	5,662

The deferred tax liability comprised the tax effect of the accelerated depreciation for tax purposes of the assets acquired.

The goodwill on acquisition and intellectual property were subsequently fully impaired as at 31 December 2017, as a result of slower than anticipated delivery of product revenues as explained above, and the deferred tax liability was eliminated by crediting it to the income statement. The total amount of goodwill expected to be deductable for tax purposes is nil. The deferred consideration is considered in note 8.

7. Inventories

Group	**2017** £'000	2016 £'000
Raw materials	**54**	46
Work in progress	**19**	–
Finished goods	**198**	164
	271	210

8. Provisions

	Contingent consideration			
	Group		Company	
	2017 £'000	2016 Restated* £'000	**2017** £'000	2016 Restated* £'000
As at 1 January	**3,414**	–	**3,414**	–
Arising during the year	–	3,031	–	3,031
Movement in fair value and discounting unwind	**(2,511)**	–	**(2,511)**	–
Movement in foreign exchange	**(296)**	383	**(296)**	383
As at 31 December	**607**	3,414	**607**	3,414
Current	**–**	–	**–**	–
Non-current	**607**	3,414	**607**	3,414

*: to disclose separately movement in foreign exchange and movement in fair value, previously netted off in 2016

As part of the purchase agreement with the previous owners of Itaconix Corporation, a contingent consideration was agreed with certain of the sellers (the "Sellers"). This would be payable to the Sellers, subject to the achievement of revenue targets for products based on the technology acquired for the calendar years 2017 to 2020, based on 50% of incremental annual net sales value above $3m in 2017 and in excess of the prior year for 2018 to 2020 inclusive (and no less than $3m). The deferred performance related consideration is capped at $6m in aggregate. Such deferred performance consideration, if any, would be satisfied annually entirely in new ordinary shares of Itaconix plc at the then prevailing price.

In respect of 2017, the deferred consideration was valued using a discounted cash flow-based assessment of the expected sales of the relevant products extracted from the latest Board approved forecasts, consistent with the approach in 2016 and the 2017 interims. On enquiry, a discount rate of 10.2% was found to still be appropriate.

As a result of the updated forecasts being lower than at previous value assessments, the contingent consideration at 31 December 2017 was impaired to £607k. Sensitivity analysis was also performed, summarised as follows:

- If the sales in 2020 were reduced by $1m, the fair value would be reduced by $350k or around £260k
- A 1% increase in the discount rate would reduce the fair value by $30k or around £20k

Since the forecasts used were a conservative base case, the computed fair value was deemed appropriate.

After publication of this annual report, it is expected that, subject to shareholder approval and the subsequent closing of the ongoing refinancing, a restructuring of the contingent consideration will become effective. Although this is not currently in place, a description of the proposed restructuring and an estimate of the effect it would have had if it had been in place for the year ended 31 December 2017 is summarised below.

It is proposed that the contingent consideration be restructured into two components:

- A one time issue of 15 million new Itaconix plc shares to the Sellers
- The continuation of the previous contingent consideration mechanism (i.e. up to $6m in shares), but with the window of time for potential achievement expanded to the end of 2022 (from the end of 2020) and including all the revenues of the Group (which are primarily from products based on the acquired technology in any event)

It should also be noted that the second component summarised above is intended to serve as an incentive programme for the two members of management (John Shaw and Yvon Durant) who are also Sellers and are entitled to 63% of the total contingent consideration (in both the existing and proposed construct). Accordingly, they will not be eligible for any cash bonus or other share incentive programme for the years 2018 to 2020 inclusive. Simultaneously the merger agreement with the former shareholders of Itaconix Corporation and related agreements will be amended to remove various restrictive clauses, including minimum funding requirements and employment terms.

Based on the current share price, 15m shares has a value of £1.1m and the value of the adjusted contingent component using the same forecasts and assumptions as above is $3.3m or around £2.5m, so an estimated total value of £3.6m. Therefore, if the proposed structure was effective as at the 31 December 2017 it would have resulted in an increase in the value of the contingent consideration by £0.2m, (rather than a reduction as described above).

9. Share capital

	Group £'000	Company £'000
At 1 January 2016 (56,666,676 shares in issue)	567	567
Issued as a result of an exercise of options		
25/02/16-3,000, 30/03/16-3,000	–	–
New share issued		
20/06/16-6,305,050, 11/07/16 -15,680,222	220	220
At 31 December 2016 (78,657,948 shares in issue)	787	787
Issued as a result of an exercise of options		
17/01/17-60,000	–	–
New share issued		
Nil	–	–
At 31 December 2017 (78,717,948 shares in issue)	787	787

Itaconix plc (previously Revolymer plc) was incorporated on 10 April 2012.

On the 20 June 2016 the Company issued 6,305,050 ordinary shares with a nominal value of 1p per share for 44.38p per share as part of the consideration for the acquisition of Itaconix Corporation.

On the 11 July 2016, the Company issued 15,680,222 ordinary shares with a nominal value of 1p per share for 37p per share . The consideration was received in cash.

10. Notes to the statements of cash flow

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Operating loss	**(5,174)**	(5,182)	**(128)**	(5,416)
Depreciation of property, plant and equipment	**259**	202	**–**	–
Amortisation and impairment	**267**	161	**–**	–
Impairment of group indebtedness	**–**	–	**(343)**	4,761
(Gain) / loss on foreign exchange	**(83)**	627	**574**	124
Share based payments charge	**184**	136	**–**	–
Taxation	**500**	481	**–**	–
Operating cash flows before movements in working capital	**(4,047)**	(3,575)	**103**	(531)
(Increase) / decrease in inventories	**(61)**	(60)	**–**	–
(Increase) / decrease in receivables	**18**	339	**(205)**	(4)
(Decrease) / increase in payables	**(569)**	(182)	**17**	(46)
Net cash (outflow)/inflow from continuing operating activities	**(4,659)**	(3,478)	**(85)**	(581)

11. Contingent liabilities

During 2017, jointly and severally with all the other shareholders, the Group provided a guarantee to Alkalon's contract manufacturer (CMO) up to a maximum EUR200k (around GBP175k), callable should Alkalon not meet its payment obligations to the CMO. Management did not expect the guarantee to be called to any extent, it expired on 15 February 2018 and indeed it had not been called to any extent at expiry. Accordingly no liability has been recorded at 31 December 2017.

After the period end, in 2018, jointly and severally with all the other shareholders, the Group has provided further guarantees to Alkalon's CMO up to a maximum EUR800k (around GBP700k), callable should Alkalon not meet its payment obligations to the CMO and/or not meet minimum annual orders for product. These guarantees reduce by EUR125k (around GBP110k) every year for 4 years, down to a maximum of EUR300k (around GBP260k). Management does not expect these guarantees to be called, and to date they have not been called to any extent. This situation will be reviewed at the 2018 year end.

12. Post Balance Sheet Events

During 2017 and after the year end, the Group has continued to refine its organisational structure to align with its markets and customers. In particular, the UK activities of the business will now be consolidated into its US base and manufacturing facility in New Hampshire, USA. This consolidation is expected to reduce Group operating expenses to around £2.2m per annum from 2019 and is driven by a further focus on growing sales of its core products and manufacture, as Itaconix moves out of the product development phase. With the axis of the Company switching to the USA certain Board changes are anticipated: John Shaw, previously President of Itaconix's US operations, will be appointed to the role of CEO; Kevin Matthews will step down from his current role of CEO and assume the role of Executive Chairman until the end of 2018 to help John Shaw transition the business and provide a link to the UK shareholder base; Bryan Dobson will step down from the role of Non-executive Chairman but will remain an independent non-executive director until a suitable successor is appointed at which point he will retire from the Board; Julian Heslop will remain an independent non-executive director until a suitable successor is appointed at which point he will retire from the Board; and Robin Cridland will step down as CFO and retire from the Board at the end of August 2018 (with an interim CFO appointed until a new US-focused full time CFO is appointed in due course), all such changes being subject to the closing of a refinancing early in the second half of

2018 and associated shareholder approvals.

The decision to cease UK operations will give rise to one time cash restructuring costs estimated at £0.8m which are expected to be incurred in the second half of 2018.

After publication of this annual report, it is expected that, subject to shareholder approval and the subsequent closing of the ongoing refinancing, a restructuring of the contingent consideration will become effective. Although this is not currently in place, a description of the proposed restructuring and an estimate of the effect it would have had if it had been in place for the year ended 31 December 2017 is summarised in note 8.