Itaconix plc

(formerly called Revolymer plc)

Annual report and accounts 2017

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CAUTIONARY STATEMENT

Sections of this Annual Report, including but not limited to the Directors' Report, the Strategic Report and the Directors' Remuneration Report may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Group. These have been made by the Directors in good faith using information available up to the date on which they approved this report. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Group and depend upon circumstances that may or may not occur in the future. There are a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. Nothing in this document should be construed as a profit forecast.

DEFINITIONS AND TERMINOLOGY

References in the Annual Report to 'Itaconix', 'Revolymer', the 'Group' or the 'Company' all refer to Itaconix plc or its businesses as the context requires, and references to the 'Directors' and 'Board' refer to the Board of Directors of Itaconix plc. References to "Admission" and "IPO" refer to the admission of Revolymer to trading on the Alternative Investment Market of the London Stock Exchange (AIM Market) in July 2012, and references to "AIM" refer accordingly to the AIM Market operated and regulated by the London Stock Exchange. References to "IP" refer to intellectual property.

Highlights

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.

Highlights (continued)

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® DSPTM 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).

Note not all numbers may cast due to roundings

A. Strategic report

A1. 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 respect of Corporate Governance (Section B2) include expanded disclosures on the work of the committees of the Board, and information on Directors' remuneration is provided in Section B3.

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 Dobson
Chairman

A2. Business model and strategy

A2.1 The Group's business

Following the acquisition and successful integration of Itaconix Corporation and the completion of the divestment of the nicotine gum business in 2016, the Group was re-launched in March 2017 under the name Itaconix plc. As a pure-play specialty chemicals business, the Group is now focused on supplying high performance, cost effective and sustainable ingredients that are key components of the consumer and industrial products made by its customers 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. Itaconix is developing a growing portfolio of functional ingredients for use in a range of consumer products, including laundry detergents, auto dish wash (ADW) tablets, odour management products and hair styling, which offer unique functionality, sustainability and cost advantages to its customers. Our products are designed to match or beat the performance of traditional ingredients. Itaconix also uses its specialty polymers to encapsulate and protect sensitive or unstable active ingredients used in everyday products, such as bleach actives used in laundry.

As a growing but small Company, Itaconix recognises the challenge of effectively accessing its markets in a timely fashion. To address this, Itaconix is actively building collaborative partnerships with leading industry players including AkzoNobel, Croda and Solvay, with the aim of accelerating market adoption of its products. Itaconix 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.

Itaconix's business model

Itaconix produces proprietary ingredients designed to meet the performance, price and sustainability needs of its customers via a growing number of bio-based products that offer a compelling alternative to traditional ingredients in markets where regulatory and consumer trends are driving a focus on performance along with sustainability.

Itaconix is focused on building a high margin, capital efficient, specialty chemical group. In addition to the manufacture of certain polymers in-house, the Company uses third party contract manufacturers for a number of products and in certain circumstances licenses its technology to major partners in the chemicals industry.

Key Performance Indicators (KPIs)

In addition to its review of financial results, the Board uses a number of KPIs to assess Itaconix's performance. As might be expected for an evolving business at a relatively early stage of commercial development, the KPIs have changed over recent years in order to align with the progress of the business. As the business has developed the Board has attached (and will continue to attach) growing significance to the generation of revenues, contribution and profit. A comparison of the KPIs used in 2016 to those used in 2017 is described in the table below:

2016 KPI's	2017 KPI's	2017 Performance against KPI's
Value of commercial deals with a target of £5m	Revenue in excess of a threshold target (£2.2m)	Not met (see Remuneration Report B3.3.2 for details)
Contribution margin in excess of a threshold target	Cash balance at year end in excess of a threshold target (£3.1m)	Cash exceeded threshold target (see Remuneration Report B3.3.2 for details)
Divestment of nicotine gum business		
Establishing two supply chains		

Performance against these KPIs was used to incentivise employees through the annual bonus scheme, and an explanation of how this has been operated in 2017 is provided under B3.3.2 below in the discussion of the link between pay and performance.

Revenue growth and cash targets were recognised as equally important and the bonus was split equally between these two KPI's. Revenue growth was the KPI used to demonstrate commercial traction with the associated recognition of the benefits of Itaconix's products. However, revenue growth was slower than expected and this KPI was not met. Despite this the Board notes that three deals with significant industry players were closed in 2017 and a distributor network was established for the personal care business such that the Group is now well positioned for commercial progress in 2018 and future periods. As an early stage loss making business the Board recognised that the year end cash position was extremely important and is pleased to report that despite the shortfall in revenue the year end cash position was better than target due to careful management of the cost base.

A2.2 Principal risks and uncertainties

It is the responsibility of the Board to assess, monitor and seek to mitigate the business risks facing Itaconix. As such, these risks are kept under ongoing review, with mitigation actions assessed on a prioritised, cyclical basis. Most recently the principal risks have been assessed by the Board prior to the publication of this annual report, as summarised below:

BUSINESS RISK	MITIGATING MANAGEMENT ACTIONS
COMMERCIAL – risk that management is unable to execute sufficient product supply deals and licences to deliver the Group's business plan and move the Company into profitability and cash generation.	The Company now has a number of products launched in different markets and with differentiated product positioning within these markets. In addition, the Company is developing strong channels to market through both partnerships with multinational chemical companies such as Croda, AkzoNobel and Solvay and a distributor network across 14 countries for personal care. Work also continued to build and secure the business's supply chain, with the expansion of production capacity in the US sufficient to meet expected supply demands, and engagement with specific external contract manufacturers for certain products. Within the development pipeline, a select portfolio of projects with significant market engagement is run in parallel to reduce the dependence of the business on success in a single product development programme and to mitigate the challenges inherent in striking commercial deals. Projects are managed and prioritised against Itaconix's objectives using a systematic review process, benchmarking against appropriate technical and commercial criteria.
INTELLECTUAL PROPERTY – risk that Group inventions are not effectively protected, increasing competitive activity limits commercial potential, or third party intellectual property is infringed by the Group.	The Company has experienced technical managers who have previously secured successful patent protection over their inventions. These individuals are supported by external expert patent and trade mark advisers, covering for example invention documentation, patent and trade mark filing strategies, the use of CDAs/MTAs, freedom to operate analyses and commercial agreement negotiation. In addition, the business aims to supplement its existing portfolio of inventions by investing in new products, extension technology, and applications know how, all of which are reviewed in line with the above procedures to assess the robustness of the associated intellectual property. For products already protected by our patents, we consider publishing anti-blocking disclosures, which also simplify the product sampling and evaluation process with customers.

BUSINESS RISK	MITIGATING MANAGEMENT ACTIONS
FINANCIAL – risk that there are insufficient financial resources to deliver the Group's business plan.	An appropriate system of internal financial controls is operated by a small team of experienced and qualified professional staff (under the oversight of the Audit Committee and external audit review) to manage the deployment of the cash resources on hand. A refinancing, sufficient to provide a funded "runway" into at least the second half of 2019 and potentially to profitability, is currently underway and is expected to close in July 2018, subject to market conditions, investor support and shareholder approval.
COMPLIANCE – risk that faulty or deteriorating products do not meet specification and harm or cause loss to customers or end consumers. As the Group develops the product supply component of its business model, this risk becomes more significant. In addition, the manufacture of chemicals creates addition safety risk to its employees.	In-house regulatory, operations and quality assurance professionals with dedicated and appropriately skilled resource have responsibility for all aspects of employee safety, product safety and compliance, including management of contractors, supported as required by external expert advisers. In addition, appropriate insurances are maintained and regularly monitored for suitability.

Additional risk considerations

Management has specifically considered the impact on the business of "Brexit" (i.e. the UK leaving the European Union) and prevailing relatively low interest rates, and does not currently deem these factors to represent significant business risks, taking into account the current state and strategy of the Group.

Management notes that exchange rate changes between the USD and GBP may result in foreign exchange movements between period ends, following the acquisition of Itaconix Corporation. Management notes that such foreign exchange movements are non cash items.

A3. Chief Executive's review

A3.1 Business 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").

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 October 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.

A3. Chief Executive's review (continued)

A3.2 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® DSPTM 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

12 July 2018

A4. Going concern

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position, are described in the Chairman's statement in section A1, the description of our business model and strategy in A2 and the Chief Executive's review in section A3.

The principal risks and uncertainties affecting the Group and a summary of the steps taken to mitigate these risks are described in section A2.2.

Critical accounting assumptions and key sources of estimation uncertainty and judgement affecting the results and financial position disclosed in this annual report are discussed in Notes 2 and 3 to the accounts.

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.

A5. Corporate social responsibility

A5.1 Employees

Itaconix continues to place considerable value on the involvement of its employees. It is committed to developing policies that encourage all employees to achieve their potential and to contribute to the success of the Company. Itaconix's human resources strategy is focused on providing a positive organisational culture and is guided by the Company's core objectives.

Equality and diversity

The Group's aim is that its employees should be able to work in an environment free from discrimination, harassment and bullying, and that employees, job applicants, customers, suppliers and other business contacts should be treated fairly, regardless of:

- race, colour, nationality (including citizenship), and ethnic or national origins;
- gender, sexual orientation, marital or family status;
- religious or political beliefs or affiliations;
- disability, impairment, other medical condition or age;
- membership of a trade union.

Organisational planning

Itaconix regularly reviews its organisational structure and reporting relationships in order to maximise their effectiveness. Itaconix continues to employ a balance of junior and more experienced, senior staff, recruited predominantly from the polymer, other chemicals or technology industries, to support its product programmes.

Recruitment and retention

Itaconix has a defined policy for the recruitment of any new or replacement staff, the employment of which must be agreed and signed off by the CEO.

Itaconix is committed to achieving equal opportunities in employment and to ensuring that performance is assessed on an individual's capabilities and demonstrated results. Full and fair consideration is given to applications for employment made by all persons, having regard to their particular aptitude and abilities. The Company seeks where practicable to identify a diverse pool of applicants.

Itaconix currently reports data on the distribution of its workforce by gender. As at 31 December 2017 this split was 35% female and 65% male (2016: 35% female and 65% male).

Training and development

Itaconix considers continuous learning to be one of its core values and training is a key constituent of the employee appraisal system. Through the ongoing development and training of our employees we look to ensure that our workforce is ready to address the challenges ahead. We assess talent regularly across the business in order to understand better our organisational strengths and knowledge gaps.

Itaconix looks to ensure that managers have the skills to foster a culture of creativity, openness and rigour, focused around good practice and quality standards.

Reward and recognition

Through a variety of reward and recognition mechanisms, Itaconix has developed a performance-driven culture that seeks to attract, retain and motivate its employees. We use a combination of approaches to reward good performance, which include consolidated salary awards, an annual bonus and equity based incentives, as well as simple individual acknowledgement and recognition.

Employee performance is assessed at least once a year and is measured against individual, team and corporate objectives.

Communication

The Company recognises the value of communication in motivating employees and managing the business. Itaconix looks to encourage the exchange of views and information between employees and the Company. Email is used extensively both to communicate Company matters to employees and to elicit questions, feedback and requests. We aim to maintain a policy of accessibility of senior management to all employees.

We also engage our employees through periodic updates and timely communication of Company news, regular employee meetings and educational sessions on various aspects of our science, technology and business.

Health and safety

The health and safety of employees and those who work with us remains a top priority for Itaconix. A key objective for the health and safety function is the continuation and development of health and safety procedures and systems, with UK and US Safety Committees chaired by the CEO, who is supported by Safety Officers. The Company has maintained an excellent safety record that can be attributed to its proactive approach to accident prevention, encouraging staff to report safety issues openly and to implement measures beyond legal minimum requirements. Itaconix's Safety Officers have direct access to the CEO, who is the Board member charged with leading on health and safety matters. The Safety Committees produce an annual Itaconix Health and Safety Review Report for presentation by the CEO to the Board for approval. In addition, the CEO reports on health and safety matters to the Board periodically as required.

A5.2 Environment

Itaconix continues to explore ways to minimise its impact on the environment. A large amount of our energy usage is attributed to the management of the air-handling, heating and lighting of our production facilities, laboratories and offices. Through the careful monitoring of energy consumption we have been able to highlight areas of improvement so that valuable resources can be conserved. We have also explored ways of segregating various waste streams providing more opportunities for recycling. Telephone and video conferencing facilities have been introduced to reduce travel to external meetings. The CEO is responsible to the Board for environmental matters.

Political and charitable donations

Itaconix's policy is that it does not donate money, services or facilities to political parties. However, Itaconix may campaign for, or against, proposed changes in legislation or regulations that might affect its business or the environment within which it operates. Officers or employees, with Board approval, may participate in government advisory committees, regulatory advisory committees or non-government organisations that are relevant to the business. No political donations were made during the current or prior financial years.

The Company encourages employee involvement in charitable causes either as individuals or in groups. During the year a contribution of £1,000 was made to an employee led charity to fund Chester SuperTrees, an environmental sustainability initiative.

A6. Approval of strategic report

A6. Approval of strategic report

Section A of this Annual Report comprises the Strategic Report for the Group which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of the Directors in connection with this Annual Report shall be subject to the limitations and restrictions provided by such law.

It should be noted that the Strategic Report has been prepared for the Group as a whole, and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiary undertakings when viewed as a whole.

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

Robin Cridland
Chief Financial Officer and Company Secretary

12 July 2018

B. Corporate governance

B1. Board of Directors and biographies

Dr Bryan Crawford Dobson (aged 65) – Independent Non-Executive Chairman

Bryan joined the Board on 13 September 2012, and became Chairman on 18 September 2015. He has more than 30 years' experience in the chemicals industry; 28 years with ICI and 5 years with the Croda group, and was most recently President Global Operations for Croda International. He was a member of the executive management teams in Croda and in a number of large speciality chemicals businesses in ICI, and has extensive management experience running regional and global business units in the UK, US, Belgium and The Netherlands. He also has expertise in developing new business in the speciality chemicals sectors; extensive functional experience in R&D and operations, and significant M&A experience. He is also currently non-executive chairman of Applied Graphene Materials Plc.

Kevin Matthews (aged 54) – Chief Executive Officer

Kevin joined the Board on 29 September 2014, when he assumed the role of Chief Executive Officer. He has over 20 years of experience in senior management roles in the chemical, technology and pharmaceutical sectors and brings significant marketing, strategy and business management expertise, along with a broad technical understanding, to Itaconix's management team. Kevin joined the Board from Isogenica Ltd, a business providing drug discovery services to the pharmaceutical industry, where he served as CEO since 2009. Prior to that, he led the chemical technology company Oxonica as its CEO for eight years, during which time he completed its AIM listing in 2005 and secured numerous significant partnership deals and M&A transactions. He is currently serving as a non-executive director of the performance materials business Low and Bonar PLC and, between 2005 and 2014, was a non-executive director of the FTSE 250 specialty chemicals company, Elementis plc, where he helped to oversee a significant and successful strategic repositioning of the business. He was also a non-executive director of Cellectricon AB, a Swedish private biotechnology business, from 2011 to 2014. Kevin began his career holding a number of increasingly senior roles at ICI, Albright & Wilson and Rhodia. He is a graduate of the University of Oxford, where he was also awarded a DPhil in Organic Chemistry.

Robin ("Rob") James Scott Cridland (aged 50) – Chief Financial Officer and Company Secretary

Rob joined the Board at its incorporation on 10 April 2012 as Chief Financial Officer and Company Secretary. He joined the business that is now Itaconix (U.K.) Limited in September 2008 from Renovo Group plc, where he spent seven years as Executive Director of Finance and Business Development. He was part of the Renovo management team that successfully took the company from a start-up organisation through to IPO on the Official List in London, and executed a significant licence of its lead drug to, and equity investment by, the Shire pharmaceuticals group. He began his career at Coopers & Lybrand Deloitte, before moving on to senior transactional roles at Enskilda Securities and senior finance and transactional roles at GlaxoWellcome and GlaxoSmithKline. He is currently serving as a non-executive director of the natural encapsulation business Eden Research plc. Rob has a First Class MA from the University of Oxford and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Julian Spenser Heslop (aged 64) – Independent Non-Executive Director

Julian joined the Board upon Admission on 10 July 2012. He is also currently a non- executive director of Dechra Pharmaceuticals Plc and previously served as Chief Financial Officer of GlaxoSmithKline plc ("GSK") between April 2005 and March 2011. He was also Chairman of ViiV Healthcare Limited until March 2011. He served as Senior Vice President, Operations Controller of GSK between January 2001 and March 2005 and as Financial Controller of Glaxo Wellcome plc from April 1998 to December 2000. Prior to this, Julian had senior finance roles at Grand Metropolitan plc and Imperial Brewing and Leisure. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Michael ("Mike") Charles Nettleton Townend (aged 55) – Non-Executive Director

Mike joined the Board on 2 July 2012 and is the representative of IP2IPO Services Limited, which had been the corporate director of the business that is now Itaconix (U.K.) Limited since February 2006. He has over 20 years' experience in all aspects of equity capital markets and investment processes. He is currently Chief Investment Officer of IP Group plc, having previously served as Head of Capital Markets for four years. Mike joined IP Group plc from Lehman Brothers where he was Managing Director of European Equities and Head of Equity Sales to Hedge Funds. Mike was also a key member of the senior relationship management programme. Prior to this, he was an executive director at Donaldson, Lufkin and Jenrette with responsibility for building the Bank's business with hedge funds and alternatives. Mike has sourced, co-led or led numerous private and public transactions. Mike is the IP Group plc representative on the Boards of Modern Water plc and Applied Graphene Materials plc and also a non-executive director of Green Urban Transport Ltd.

James ("Jim") Joseph Barber (aged 64) – Non-Executive Director

Jim joined the Board on 12 September 2016 as the nominee of the previous shareholders of Itaconix Corporation, a right conveyed under the merger agreement between the companies. Since 2007 he has run his own business consultancy practice Barber Advisors LLC. Prior to this, Jim served as President and CEO of Metabolix, Inc. from January 2000 to May 2007, leading the transformation of Metabolix from a research boutique to a world renowned, highly regarded leader in "clean tech" and industrial biotechnology, with a market cap of over $500m. Prior to joining Metabolix Inc., he had senior commercial roles at the Organometallics and Catalysts business of Albemarle Corporation, Ethyl Corporation, and a number of other chemicals businesses. Jim is a non executive director of Graham Corporation and Nanocomp Technologies, Inc. He has a BS degree in Chemistry from Rensselaer Polytechnic Institute and a PhD in Organic Chemistry from the Massachusetts Institute of Technology.

B2. Corporate governance

The Directors recognise the importance of, and are committed to, high standards of corporate governance. Although compliance with the UK Corporate Governance Code is not compulsory for AIM companies, the Directors aim to apply those principles of the Code as they consider appropriate to a group of Itaconix's size, taking into account the recommendations contained in the QCA Guidelines.

The Board is specifically responsible for the business risk assessment and mitigation policy and oversees an overarching review of such risks and mitigating steps by management.

Following the refinancing expected to be closed in the second half of 2018, changes in the Board are expected to be made, as outlined in section A3.1.

B2.1 Leadership

The Board of Directors is responsible for overall Group strategy, for approving major third party agreements, transactions and financing matters, and for monitoring the progress of the Group against the medium term strategic plan and annual budget. All Directors receive sufficient relevant information on financial, business and corporate issues prior to Board meetings and there is a schedule of matters reserved for decisions of the Board.

For the year ended 31 December 2017, the Board comprised two executives and four non- executives, and reflected a balance of different experience and backgrounds. The roles of Chairman (which is a non-executive position) and Chief Executive Officer have been split by the Board and there is a clear division of responsibility between the two. The Board considers Julian Heslop and Bryan Dobson to be independent in character and judgement.

The names of the Directors in office at the date of this Annual Report and their biographical details are set out in section B1.

B2.2 Audit Committee

The Company's Audit Committee comprised during the year Bryan Dobson and Julian Heslop. Julian Heslop is the Chairman of the Committee. The Audit Committee is normally required to meet at least twice a year and is responsible for reviewing: the integrity of the financial statements of the Group; the adequacy and effectiveness of the Group's internal financial controls and risk management processes (including the extent to which internal audit review is required); the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns about possible wrongdoing; and the Company's procedures for detecting fraud. It also reviews the external auditor's performance and independence and makes recommendations to the Board on the appointment of the auditor.

During the year the Audit Committee met five times. In March (over two meetings) it reviewed and approved for recommendation to the Board the 2016 annual report and preliminary announcement; the performance of the auditor (confirming that it believed Ernst & Young LLP was both effective and independent); the processes for risk mitigation; the proposed going concern basis of preparation of the accounts; and the reappointment of the auditor. In July it was introduced to a new audit partner from Ernst & Young LLP and took the opportunity to review the 2017 interims review plan, which it recommended to the Board. In September the Committee reviewed and recommended to the Board the interims announcement, including confirming its view that the auditor remained independent and effective. In November it reviewed and recommended to the Board the 2017 year end audit plan; the adequacy of the Group's insurances; and the requirement for an internal audit function (concluding the size of the Group did not at this stage justify such a resource). The Board approved all the recommendations of the Committee at its immediately following meetings.

B2.3 Remuneration Committee

The Company's Remuneration Committee during the year comprised Bryan Dobson, Jim Barber and Julian Heslop. Bryan Dobson was the Chairman of the Committee. The Committee is normally required to meet at least twice a year and is responsible for determining and reviewing the policy for the remuneration of the Executive Directors and such other members of the executive management as it is designated to consider. Within the terms of the agreed policy, it determines the total individual remuneration of the Executive Directors. The Committee also approves the design of, and determines targets for, any performance-related pay schemes, reviews the design of any share incentive plans, determines the awards to the Executive Directors and sets the policy for, and scope of, pension arrangements for each Executive Director. Finally, the Committee approves the design and principles of the remuneration schemes for the employees of the business outside of the management team, which are implemented by the executive Directors.

During the year the Remuneration Committee met four times. In February and March for the benefit of executive Directors and management team it finalised the 2016 cash bonus awards, 2017 salaries and the 2017 LTIP awards, all for recommendation to the Board. In May the Committee reviewed and confirmed for recommendation to the Board appropriate head room for the share incentive schemes in line with the Investment Association Principles of Remuneration. The Board approved all the recommendations of the Committee at its immediately following meetings.

In November it commenced a review of the existing Group remuneration policy, which is ongoing and expected to be finalised in due course, after the anticipated board changes outlined in section A3.1.

B2.4 Nominations Committee

The Company's Nominations Committee comprises Bryan Dobson and Julian Heslop. Bryan Dobson is the Chairman of the Committee. The Committee is normally required to meet at least once a year and is responsible for reviewing the structure, size and composition of the Board and recommending to the Board any changes required, for succession planning and for identifying and nominating for approval of the Board candidates to fill vacancies as and when they arise. The Committee is also responsible for reviewing the results of the Board performance evaluation process, making recommendations to the Board concerning suitable candidates for the role of senior independent Director (if applicable) and the membership of the Board's committees, and the re-election of Directors at the annual general meeting.

Since there were no changes to the Board or management during the year, the Committee did not meet during 2017.

All Board committees operate within defined terms of reference and sufficient resources are made available for them to undertake their duties. The terms of reference for each committee are available from the company website (in the Investor Relations section and under Corporate Governance).

B2.5 Other governance measures

Directors and employees securities dealings

The Board has complied with and will continue to comply with the Market Abuse Regulation ("MAR") relating to Directors' dealings and also takes all reasonable steps to ensure compliance with MAR by the Group's applicable employees.

Secretariat

The Board periodically reviews the effectiveness of the historic combination of Chief Financial Officer and Company Secretary into one appointment. In view of the current size of both the Board and the Company, the Board currently believes that during the year it was well served by the advice received in company secretarial matters by relying on advice from:

- Rob Cridland (CFO) who has acted as a Company Secretary to public limited companies during the past twelve years;
- the Company's solicitors (Fieldfisher LLP and BPE Solicitors LLP);
- the Company's auditor (Ernst & Young LLP);
- the Company's nominated adviser and broker (Nplus1 Singer Advisory LLP ("N+1 Singer"));
- the Company's registrars (Link Asset Services);
- the Audit Committee.

B2. Corporate governance (continued)

Accountability

Reviews of the performance of the Group's main business lines are included within the Strategic Report. The Board intends that this presents a fair, balanced and understandable assessment of the Group's position and prospects.

The Directors' responsibilities for the financial statements are described in section B5.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which is regularly reviewed by the Board, was in place for the year ended 31 December 2017 and to the date of these financial statements (as described in section A2.2 and B2.2).

The Directors are responsible for the systems of internal control throughout the Group, including over financial reporting, and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against the risk of material misstatement or loss and that assets are safeguarded against unauthorised use or disposition. In assessing what constitutes reasonable assurance, the Directors have regard to the relationship between the costs and benefits from particular aspects of the control systems.

Internal control over financial reporting within the Group is provided by a process designed, under the supervision of the CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes, including the process of preparing the Group's consolidated financial statements. Such statements are prepared by the UK and US Financial Controllers, assisted by third party consultants as appropriate, and reviewed both by the Chief Financial Officer and the Chairman of the Audit Committee. All four of these individuals are Chartered Accountants (or US equivalent) with significant financial experience.

In addition, the system of internal controls includes policies and procedures intended to ensure that records are maintained that fairly, and in reasonable detail, reflect transactions and disposition of assets to provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements.

Internal financial control systems, no matter how well designed, have inherent limitations (particularly given the small number of financial staff employed by the Group) and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may reduce.

Conflicts of interest

During the year, and since the year end, The Board has discussed on a number of occasions the renegotiation of the contingent consideration payable to the former owners of Itaconix Corporation. Since Jim Barber is the nominee director of the former owners of Itaconix Corporation, he excused himself from these discussions in order to avoid a potential conflict of interest. Otherwise no Director notified the Board of any conflicts of interest.

Relations with shareholders

Itaconix attaches a high priority to effective communication with both institutional and private shareholders. The AGM is the principal forum for dialogue with private shareholders. A business presentation is made at the AGM and there is an opportunity for shareholders to put questions to the Directors. Itaconix aims to maintain regular contact with institutional shareholders through a programme of one to one visits, group meetings and briefings scheduled around the announcement of significant commercial developments in the business and the preliminary and interim financial results.

Financial risk factors

The Group's relatively simple structure, and the lack of debt financing, reduces the range of financial risks to which it is exposed. Monitoring of financial risk is part of the Board's ongoing risk management process, the effectiveness of which is reviewed annually. The Group's agreed policies are implemented by the CFO, who submits financial reports at each

Board meeting. The Group has not, to date, used derivative transactions and it is the Group's policy not to undertake any trading in financial instruments.

Interest rate risk

The Group does not have any committed borrowing facilities as its cash balances are sufficient to finance its current operations. Consequently, there is no material exposure to interest rate risk.

Credit risks

The Group's treasury policy is to place funds in short term deposits with a panel of UK financial institutions rated at least F1/A1/P1 (or equivalent ratings) up to pre-agreed limits.

Cash flow and liquidity risk

The Group presently relies on its invested funds rather than trading receipts to meet its financial commitments. The maturity profile of its investments is structured to ensure that sufficient liquid funds are available to meet current operating requirements, in line with its treasury policy. The Group is currently seeking refinancing to enable it to continue as a going concern (see section A4 Going concern).

B3. Directors' remuneration report

This report is on the activities of the Remuneration Committee for the year ended 31 December 2017 and sets out the current remuneration policy and remuneration details for the Executive and Non-executive Directors of the Company. It should be noted that the remuneration policy is currently under review by the Remuneration Committee, and any amendments will be the subject of subsequent disclosures, expected after the anticipated board changes outlined in section A3.1.

This report is split into three main areas: the Statement by the Chairman of the Committee (B3.1), the Policy Report (B3.2) and the Annual Report on Remuneration (B3.3, which provides details on remuneration in the period and other selected information and is subject to shareholder approval at the forthcoming Annual General Meeting).

B3.1 Statement by the Chairman of the Remuneration Committee

Dear Shareholder

The philosophy underpinning the Group's remuneration policy is to seek to produce an outcome which is fair and appropriate to the Company, its shareholders and its senior executives. Company performance is central to the policy, with the focus being on both short and long term qualitative and quantitative objectives.

For 2017, the Committee set a number of stretching performance targets for the annual cash bonus for management and staff related to equally weighted targets for group revenue and cash, with payment deferred until completion of a refinancing in 2018. These were partially met (as described in Section B3.3.2 below) and as a consequence performance bonuses will be paid subject to completion of a refinancing in 2018.

Management and staff may also be eligible for grants in respect of 2017 performance under the LTIP which, if made, will be awarded after the publication of this Annual Report. Further details in respect of the Executive Directors are disclosed in section B3.3.

The challenge for the Remuneration Committee remains, as ever, to ensure that the remuneration is appropriately structured to attract, retain and motivate Executive Directors, management and staff, whilst providing alignment with shareholders' interests and, most importantly, directly linking to the achievement of the Company's strategy.

I commend this report to shareholders.

Bryan Dobson
Chairman of the Remuneration Committee

12 July 2018

B3.2 Policy report

Introduction

This part of the report sets out the Directors' remuneration policy. The policy will apply until a new policy is proposed to shareholders. In setting the remuneration policy for Executive Directors, the Committee takes into account:

- the need to attract, retain and motivate high quality Executive Directors and management to deliver the Company's strategy;
- the maintenance of a clear link between rewards and Company performance;
- the objective of achieving an appropriate mix of fixed and variable pay;
- the views of our investors and shareholder bodies;
- the requirement, where appropriate, to comply with the UK Corporate Governance Code;
- the need to encourage management to adopt a level of risk which is in line with the risk appetite of the business as approved by the Board;
- the requirement that no-one is being rewarded more than once for the same achievement;
- the requirement for Executive directors to maintain a significant level of investment in the Company's shares from exercised vested options or other means;
- periodic peer group comparisons through external benchmarking.

Remuneration policy for the Chairman and Executive Directors

The Company's policy is to ensure that the Executive Directors and management are fairly rewarded for their individual performance having regard to the importance of retention and motivation. The performance measurement of the Executive Directors and management and the determination of their annual remuneration packages are undertaken by the Committee. The Committee also sets the salary for the Chairman (with the Chairman withdrawing from such discussion so he cannot influence his own fees), taking account of his performance and time commitment in the role.

The Committee has given due regard to the link between remuneration and strategy, seeking to ensure that the remuneration structures in place do not encourage excessive risk or activities that are not in line with the agreed strategy.

The Committee also pays due regard to the levels of remuneration within the Group when determining the remuneration of Executive Directors and other senior employees. It also seeks to ensure that the incentive structures for senior management do not raise environmental, social or governance risks by inadvertently motivating inappropriate behaviour.

Key aspects of the remuneration policy for Executive Directors and management

The Executive Directors and management receive a combination of fixed and performance-related elements of remuneration. Fixed remuneration consists of salary, benefits and pension contributions. Performance-related remuneration consists of participation in the annual cash incentive scheme and an annual award of share based payments under the LTIP. The performance-related elements of remuneration are intended to constitute a significant proportion of an individual's potential total remuneration. The tables below embody the policy applied:

B3. Directors' remuneration report (continued)

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
BASE SALARY			
To provide a competitive, fixed cash component that reflects the scope of individual responsibilities and recognises sustained individual performance in the role.	Remunerate fairly for individual performance, having regard to the importance of motivation. Take into account remuneration levels in the Group as a whole, individual and business performance and periodic external benchmarking.	Salaries for the year ended 31 December 2017 are set out in section B3.3. Increases, if the Committee is satisfied with the individual's performance, will normally broadly follow those awarded for the rest of the organisation. Changes in the scope or responsibilities of an Executive's role may require an adjustment to salary above the normal level of increase or arise from a periodic benchmarking review. In respect of new Executives, salaries will be broadly in line with external benchmarking and other relevant circumstances, but one time payments to account for compensation for previous entitlements surrendered may also be required.	None.
BENEFITS			
To provide market levels of benefits on a cost-effective basis.	Private health cover for the Executive and their family. Other benefits may be offered from time to time broadly in line with market practice.	These benefits are made available through third party providers and therefore the cost to the Company may vary from year to year. It is intended the maximum value of benefits offered will remain broadly in line with market practice.	None.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
PENSION			
To provide competitive post-retirement benefits.	Pension contributions amounting to 10% of base salary of the Executive are made into a money purchase pension scheme, or a cash equivalent may be paid.	For new external appointments a cash allowance or Company contribution into a money purchase pension scheme may be offered broadly in line with market practice.	None.
ANNUAL CASH INCENTIVE			
To incentivise Executives to achieve specific, predetermined goals that drive delivery of the Company's operational objectives over a one year period. To reward individual performance.	Each Executive's annual cash incentive (bonus) is based on a mix of stretching financial, strategic and risk-related performance measures that are intended to be aligned to shareholders' interests. Furthermore, any payment within this policy is ultimately at the discretion, reasonably applied, of the Remuneration Committee. The annual cash incentive is non-pensionable.	Bonus payments are determined by measurement against a board determined "Threshold" (below which no bonus is payable) and a board determined "Target". The maximum bonus potential is 200% of salary. However, for Target performance a maximum bonus of 100% of salary will be awarded, with additional amounts only being awarded for exceptional performance, and only at the discretion of the Remuneration Committee.	The performance metrics are set by the Committee at the start of the year with input from the Chairman and CEO. The bonus is calculated by pre-defining the performance metrics required to achieve the Threshold. Achievement of the remaining metrics will then be prorated between Threshold and Target. Details of the performance Target set for the year under review and performance against them are provided in section B3.3 unless disclosure is deemed to be commercially sensitive.

B3. Directors' remuneration report (continued)

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
LONG-TERM INCENTIVE PLAN (LTIP)			
To incentivise Executives to achieve enhanced returns for shareholders. To encourage long-term retention of key Executives. To align the interests of Executives and shareholders.	An annual award of shares subject to continued service and challenging performance conditions over a three year period. The performance conditions are reviewed on an annual basis to ensure they remain appropriate and are currently based on increasing shareholder value. Awards are structured as nil cost options with a seven year life after vesting.	The maximum award is 200% of salary in any one year taking into account the current market price of the ordinary shares on the date of the award. In view of the size of the Company the Committee may, however, offer an exceptional award on appointment of a new Executive Director, as is common with AIM quoted companies, in order to attract the highest level of candidates. Performance conditions will be applied in line with the normal annual awards.	Granted subject to achieving the performance conditions set at the date of the award. A percentage of the award will vest for "Threshold" performance with full vesting taking place for equalling or exceeding the performance "Target". In between the Threshold and Target there may be pro rata vesting. The Committee retains the ability to amend the performance conditions for future grants to ensure that such grants achieve the stated purpose.
EMPLOYEE INCENTIVE PLAN			
To incentivise all other eligible staff and to encourage long-term retention.	Awards may be granted under the Itaconix plc LTIP. However, such awards will either be approved EMI or unapproved market value share options as determined by the Committee and with vesting periods generally in line with those set for the above LTIP awards.	As determined by the Committee, but usually a pool will be created based on a percentage (not expected to be more than 50%) of the aggregate salary cost of the eligible staff, and this will then be allocated to individuals by the Executive Directors based on merit.	Eligible staff members must be in the employment of the Group at vesting.

Remuneration Committee flexibility, discretion and judgment

The Committee operates the variable incentive plans according to their respective scheme rules and in accordance with HM Revenue and Customs (HMRC) rules where relevant. To ensure the efficient administration of these plans the Committee advises on certain operational matters. These include the determination of:

- the participants of the plans on an annual basis;
- the timing of grant of award and/or payment;
- the quantum of an award and/or a payment (within the limits set in the policy tables above);
- the extent of vesting based on actual performance;

- adjustments required in certain circumstances (e.g. change of control, rights issues, corporate restructuring etc);
- “good/bad leaver” status for incentive plan purposes and the appropriate treatment chosen;
- the annual performance measures, targets and thresholds for the annual incentive and LTIP award.

If an event occurs which results in the annual incentive or LTIP conditions being deemed no longer appropriate then the Committee will have the ability to adjust the measures and/or targets so that the conditions are not materially less difficult to satisfy.

Key aspects of the remuneration policy for the Chairman and Non-executive Directors

The Chairman and Non-executive Directors have service contracts contemplating a three year term with an expectation that they will be available to serve at least one further term. The fees of the Chairman and Non-executive Directors are reviewed annually by the Executive Directors and Chairman and recommendations are brought to the Board. The Chairman is not involved in the determination of his own fees. The Chairman and Non-executive Directors are not eligible to participate in annual incentive plans, long-term incentive plans or pension arrangements. Benefits may, however, be provided to Non-executive Directors related to the performance of their duties (e.g. reimbursement of reasonable travel and other expenses incurred in connection with the Group’s business).

The Company’s Articles of Association place a restriction on the aggregate amount payable to Non-executive Directors to the sum of £500,000.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
FEES			
To ensure that the Group can attract and retain the appropriate number and mix of Non-executive Directors with the correct experience to provide balance, oversight and challenge.	Non-executive Directors' fees are reviewed on an annual basis and are subject to the Articles of Association. The Board will exercise judgement in determining the extent to which fees are altered in line with market practice given the requirement to procure and retain the appropriate skills and given the expected time commitments. Non-executive Directors are paid an annual fee with additional fees for the roles of Senior Independent Director and Chairmen of Board committees.	Fees for the year ended 31 December 2017 are set out in the Annual Report on Remuneration (section B3.3). Increases above those awarded for the rest of the organisation may be made to reflect the periodic nature of any review. Changes in the scope or responsibilities of a Director's role, or the time commitment required, may require an adjustment to the level of the fee. The maximum level of fees specified in the Articles of Association is reviewed by the Board from time to time.	None.

Choice of performance measures and approach to Target setting

The choice of performance measures applicable to the annual incentive scheme reflects the Committee's belief that incentives should be appropriately challenging and tied to the achievement of both forward and backward-looking financial objectives, risk metrics and specific individual objectives linked to the Company's strategy.

The Committee reviews the measures each year and varies them as appropriate to reflect the priorities for the business in the year ahead. A sliding scale of Targets is set for each measure to encourage continuous improvement and encourage the delivery of above-Target performance.

The LTIP is subject to shareholder return growth measures to provide a focus on the Group's financial performance and shareholder value creation. Such targets are currently set as specific milestones for the Company's share price performance over the vesting period.

Policy on recruitment and promotion

Salaries for newly recruited Directors will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. If it is considered appropriate to appoint a new Director on a below market salary (for example, to allow the Director to gain experience in the role) the individual's salary may be increased to a market level by way of a series of above inflation increases over two to three years, subject to performance and development in the role.

A new appointment would be offered benefits comparable to existing Directors, as well as other reasonable expenses such as legal and relocation costs (if necessary on a net of tax basis).

The prevailing maximum bonus opportunity for existing Directors will not be exceeded for any newly recruited Director and would be pro-rated to reflect the proportion of the year worked. It may be necessary to set different performance measures and targets initially, dependent on the timing of the appointment and the nature of the role taken up. Guaranteed bonuses will not be offered.

LTIP awards may be granted shortly after appointment (subject to the Company not being in a closed period) and the quantum of the award may initially be larger than the maximum opportunity of existing Directors in order to be able to attract the highest calibre of appointment.

Current entitlements (for example, bonus and share awards) which will lapse on the individual's departure from a previous position may be replaced with awards that have no shorter time horizons, are subject to performance conditions and do not have a higher theoretical fair value. The Committee retains flexibility to act on such basis as it deems appropriate in the circumstances.

In the event that an existing employee is promoted to the Board, any contractual commitments made to the employee prior to such promotion will continue to be honoured even if they would not otherwise be consistent with the policy prevailing when the commitments are fulfilled.

Service contracts

Executive Directors are appointed on one year rolling contracts in line with current market practice and in the event of early termination these provide for the payment of one year's salary and benefits. At 31 December 2017, Kevin Matthews held a service contract entered into on 3 July 2014 (although his commencement date was 29 September 2014 as a result of notice obligations to his previous employer) and Robin Cridland held a service contract entered into on 4 July 2012.

Policy on termination payments

The provisions of the Executive Directors' service contracts will determine their entitlement to salary, benefits, pension and bonus as compensation for loss of office. Specific change of control provisions or entitlements to enhanced redundancy payments are excluded.

Any statutory entitlements or sums to settle or compromise claims in connection with the termination would be paid as necessary. In specific circumstances, outplacement services and relocation expenses may be provided at normal rates for Directors.

Bonuses are normally only payable where the individual remains employed and is not under notice at the payment date. However, in certain good leaver situations (injury or disability, redundancy or any other justification the Committee reasonably decides) a bonus may be payable at the Committee's discretion, based on an assessment of the performance of the individual and/or the Company over the period of the bonus year worked.

The treatment of share based incentive awards will be determined at the discretion of the Committee taking into account the relevant rules of the plan.

On determination of a good leaver status or as a result of a death, then awards under all plans may be exercised within twelve months of the date of vesting, subject to HMRC rules as applicable.

Consideration of shareholders' views

The Committee considers shareholder feedback received in relation to the AGM each year and from the Company's regular engagement with major shareholders and their representative bodies, together with any additional feedback received during other meetings and communications with shareholders.

All views received are reported back to the Committee which will take them into account when formulating any material changes to the remuneration policy.

B3. Directors' remuneration report (continued)

Legacy arrangements

For the avoidance of doubt, in approving this Policy Report, authority was given to the Company to honour any commitments entered into with current or former Directors that have, or will have, been disclosed to shareholders in remuneration reports before the Policy took effect.

B3.3 Annual report on remuneration

B3.3.1 Application of policy

Consideration by Directors of matters relating to remuneration

Remuneration Committee

During the year, the Remuneration Committee consisted of, Bryan Dobson (who chaired the Committee), Jim Barber and Julian Heslop. Bryan Dobson and Julian Heslop are considered to be independent Non-executive Directors.

None of the Non-executive Directors who sat on the Committee during the year had any personal financial interest in the business (other than as a shareholder), conflict of interest arising from cross-directorships or day-to-day involvement in running the business. The Chairman of the Board does not participate in discussions on his own remuneration.

The terms of reference for the Committee are available from the Company website (in the Investor Relations section and under Corporate Governance). During the year the Remuneration Committee met four times. In February and March for the benefit of executive Directors and management team it finalised the 2016 cash bonus awards, 2017 salaries and the 2017 LTIP awards, all for recommendation to the Board. In May the Committee reviewed and confirmed for recommendation to the Board appropriate head room for the share incentive schemes in line with the Investment Association Principles of Remuneration. In November it commenced a review of the existing Group remuneration policy (which is ongoing and expected to be finalised in due course). The Board approved all the recommendations of the Committee at its immediately following meetings.

Application of the remuneration policy for the year ending 31 December 2018

Salary and fees

The current levels of annual salaries and fees effective from 1 January 2018 are:

	2018	2017
Executive Directors		
Kevin Matthews(1)	**£224,100**	£219,700
Robin Cridland(1)	**£207,100**	£203,000
Non-executive Directors		
Bryan Dobson	**£60,000**	£60,000
Julian Heslop	**£40,000**	£40,000
James Barber	**£35,000**	£35,000
Michael Townend(2)	**£15,000**	£15,000

(1) The increases in 2018 for the Executive Directors will only be made after a 2018 refinancing is closed, back-dated to 1 January 2018

(2) The fee in respect of the service of Mr Townend is paid to IP2IPO Limited, a subsidiary of IP Group plc.

Annual cash incentive

The annual cash bonus plan for 2018 is based for all staff on a number of challenging corporate objectives which directly contribute to an increase in the value of the Company. For 2018, the target bonus levels for Executive Directors on meeting all of these objectives are:

Kevin Matthews	100% of base salary
Robin Cridland	100% of base salary

The Committee considers that the performance metrics underpinning the annual incentive are in line with shareholders' expectations.

Pension contributions and other benefits

Executive Directors are entitled to receive pension contributions amounting to 10% of base salary and to be paid into a money purchase scheme, or cash equivalent. In addition, and in accordance with their service contracts, they are also entitled to private medical expenses insurance, life assurance and permanent health insurance.

Long-term Incentive Plan (LTIP)

The LTIP comprises an annual grant of performance shares to Executive Directors and senior management under the Long Term Investment Plan. The grant for 2017 was made on 31 May 2017 based on 150% of base salary for Kevin Matthews and 100% of base salary for Robin Cridland, taking into account the then current market price of the ordinary shares of 23.5p.

B3.3.2 Directors' remuneration for the year ended 31 December 2017

Single total figure of remuneration for each Director

The following tables have been prepared using the measures prescribed by the Large and Medium- sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

In accordance with the Regulations, the values shown for share awards vesting in the year have been calculated on the basis of the share price at the vesting date, which may not necessarily equate to the price at which the awards have been or may be exercised.

Year ended 31 December 2017

	Fixed remuneration			**Variable remuneration**		
	Salary/ Fees £000	**Benefits £000**	**Pension £000**	**Bonus £000**	**Share awards £000**	**Total £000**
Executive Directors						
Kevin Matthews	220	15	22	55	–	312
Robin Cridland	203	10	20	51	–	284
Non-executive directors						
Bryan Dobson	60	–	–	–	–	60
James Barber	35	–	–	–	–	35
Julian Heslop	40	–	–	–	–	40
Michael Townend(1)	–	–	–	–	–	–
Total	558	25	42	106	–	731

(1) An amount of £15,000 was paid to IP Group plc for the services of Mr Townend.

Year ended 31 December 2016

	Fixed remuneration			Variable remuneration		
	Salary/ Fees £000	**Benefits £000**	**Pension £000**	**Bonus £000**	**Share awards £000**	**Total £000**
Executive Directors						
Kevin Matthews	217	15	22	91	–	345
Robin Cridland	200	10	20	84	–	314
Non-executive directors						
John Keenan	40	–	–	–	–	40
Bryan Dobson	60	–	–	–	–	60
Robert Frost	15	–	–	–	–	15
James Barber	11	–	–	–	–	11
Julian Heslop	40	–	–	–	–	40
Michael Townend(1)	–	–	–	–	–	–
Total	583	25	42	175	–	825

(1) An amount of £15,000 was paid to IP Group plc for the services of Mr Townend.

Remuneration in respect of share awards is calculated by multiplying the number of shares vesting in the year by the mid-market closing price of the shares on the vesting date.

The link between pay and performance – Annual incentive for the year ended 31 December 2017

The annual bonus for the year under review was based on performance against the two metrics of Group revenue and year end cash balances. The details were as follows:

Performance Criteria	Target Allocation	Target Measure	2016 Outcome	Award made as % of Target
Group Revenue	50%	Trigger for any payment was revenue of more than £2.2m, with pay-out calculated on a straight-line basis from £2.2m to £4.5m, at which point the full Target was payable	Trigger not achieved (actual revenue was £0.6m)	nil
Year end cash balances	50%	Trigger for any payment was cash of more than £3.1m, without pay-out calculated on a straight-line basis from £3.1m to £4.1m, at which point the full Target was payable	Partially achieved (year end cash was £3.6m)	25%
TOTAL	100%	–	–	25%

Furthermore, the bonus payment to the management team has been deferred until the closure of a refinancing in 2018.

Directors' share options

The aggregate emoluments disclosed above do not include any amounts for the value of options to acquire shares in the Company granted to or held by Directors except for those awards vesting in the year.

Details of options over shares in Itaconix plc for Directors who served during 2017 are as follows:

Name	Scheme	1 January 2017	Granted/ (Lapsed)	(Exercised)	31 December 2017	Exercise Price £	Total Exercise Cost £	Date from which exercisable	Expiry Date
Kevin Matthews	LTIP	567,568	(567,568)	–	**–**	nil	nil	30/04/18	lapsed
	LTIP	955,147		–	**955,147**	nil	nil	29/09/19	29/09/26
	LTIP		1,402,340		**1,402,340**	nil	nil	31/05/20	31/05/27
Sub total		**1,522,715**	**834,772**	**–**	**2,357,487**		**nil**		
Robin Cridland									
	EMI	417,120	–	–	**417,120**	0.26167	109,148	10/07/12	12/11/18
	2008	98,970	–	–	**98,970**	0.26167	25,897	10/07/12	12/11/18
	2008	132,840	–	–	**132,840**	nil	nil	10/07/12	23/04/22
	EMI	171,870	–	–	**171,870**	nil	nil	10/07/12	10/07/22
	2008	378,120	–	–	**378,120**	nil	nil	10/07/12	10/07/22
	LTIP	–		–	**–**	nil	nil	09/01/16	lapsed
	LTIP	355,140	(355,140)		**–**	nil	nil	23/04/17	lapsed
	LTIP	349,550	(349,550)	–	**–**	nil	nil	30/04/18	lapsed
	LTIP	588,235			**588,235**	nil	nil	29/09/19	29/09/26
	LTIP		863,830		**863,830**	nil	nil	31/05/20	31/05/27
Sub total		**2,491,845**	**159,140**		**2,650,985**		**135,045**		
Grand total		**4,014,560**	**993,912**		**5,008,472**		**135,045**		

Except for those granted under the LTIP, the above options were originally granted over the shares of Revolymer (U.K.) Limited. Options shown as EMI are under an approved HMRC 2008 scheme while those shown as 2008 are under an unapproved 2008 scheme. As part of the Admission documentation and via subsequent share exchange deeds, these options were converted into options over Revolymer plc shares. Each option over 1 ordinary share in Revolymer (U.K) Limited was converted into an option over 30 ordinary shares in Revolymer plc but at an exercise price of one thirtieth of the original grant. Options over Revolymer plc shares became options over equivalent shares in Itaconix plc as a result of the recent name change since the Company's registration number was unchanged.

The closing mid market price of the ordinary shares at 29 December 2016 was 15.75p and the range during the year then ended was 33.5p to 15.25p.

Directors' interest in shares

The interests of the Directors in the shares of the Company at 31 December 2017, excluding options over shares shown above, were as follows:

The Company – ordinary shares of 1p each	**Number of ordinary shares**
Bryan Dobson	83,500
Michael Townend	64,940
Julian Heslop	60,000
Robin Cridland	52,836
James Barber	45,000
Kevin Matthews	20,000
TOTAL	**326,276**

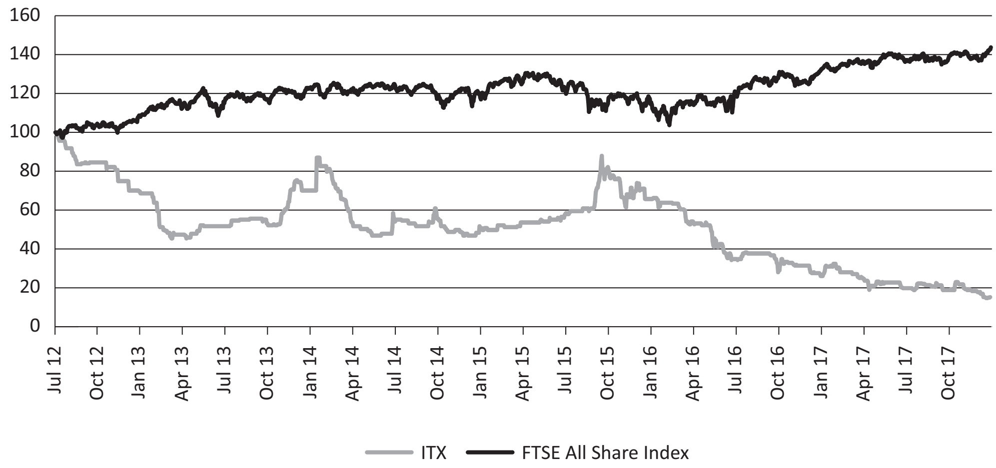
The Board also requires the Executive Directors to maintain minimum interests (equivalent to 200% of salary at the time of grant) before selling any ordinary shares that are the result of LTIP exercises, except that they may sell that number of ordinary shares that are required to satisfy any income tax and employee's national insurance liabilities arising at exercise. This requirement shall not apply on a change of control, or other transaction with substantially the same effect, or at the discretion of the Board.

B3.3.3 Other information

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Performance graph

The following graph shows the Company's TSR performance compared with the performance of the FTSE All Share index.



The graph shows the value of £100 invested in Revolymer plc (now Itaconix plc) on Admission on 10 July 2012 compared with £100 invested on the same day invested in the FTSE All Share Index.

Consultations with shareholders

Itaconix attaches a high priority to effective communication with both private and institutional shareholders. The AGM is the principal forum for dialogue with private shareholders. A business presentation is made at the AGM and there is an opportunity for shareholders to put questions to the Directors. Itaconix's consultation with its institutional shareholders tends to be focused in the periods immediately following the announcement of its audited preliminary results (historically in March), its unaudited interim results (historically in September) and the achievement of commercial milestones as appropriate, reflecting the annual cycle of open and closed (or prohibited) periods that govern the communications of public companies. Such communications are designed to take questions on and clarify as necessary the content of the announcements, and may take the form of a programme of one to one visits, group meetings and briefings, or teleconferences. Shareholders are also welcome to contact the Company with questions and constructive feedback directly, using the contact details provided on our website or via our nominated adviser and broker, N+1 Singer.

The Directors' Remuneration Report, section B3 of this Annual Report, including both the Policy Report and Annual Report on Remuneration has been approved by the Board of Directors.

Signed on behalf of the Board of Directors

Bryan Dobson
Chairman of the Remuneration Committee

12 July 2018

B4. Directors’ report

The Directors of Itaconix plc (registered number 08024489) submit their report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (‘Schedule 7’).

Directors and their interests

The Directors of the Company at 31 December 2017 were:

Bryan Dobson (Chairman);
Kevin Matthews (Chief Executive Officer);
Robin (“Rob”) Cridland (Chief Financial Officer and Company Secretary);
Julian Heslop (Non-executive);
Michael Townend (Non-executive); and
James (“Jim”) Barber (Non-executive).

All the Directors stood for re-election at the 2017 Annual General Meeting. In accordance with article 90 of the Company’s Articles of Association, no Directors need to stand for re-election at the 2018 Annual General Meeting. However, the Board has decided that in order to follow the principles of the UK Corporate Governance Code, all Directors holding office at the date of this report will offer themselves for re-election in 2018. The proposed changes to the Board noted under Post Balance Sheet Events below and in other parts of this Annual Report will be put to shareholders at the 2019 AGM since they are contingent on refinancing in 2018.

Biographical details of all the Directors at the date of this report are given in section B1.

The interests of the Directors in the share capital of the Company are disclosed in the Directors’ Remuneration Report in section B3. There have been no other changes in the Directors’ interests since 31 December 2017.

None of the Directors has a service contract with the Company requiring more than twelve months’ notice of termination to be given. None of the Directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries.

Directors’ indemnity

Itaconix has purchased insurance to cover the Directors, officers and employees of Itaconix plc and its subsidiaries against defence costs and civil damages awarded following an action brought against them in their personal capacity whilst carrying out their professional duties for the Group.

Dividends

Itaconix is seeking primarily to achieve capital growth for its shareholders. Its intention is to retain future distributable profits, if any, and therefore does not anticipate paying any dividends in the foreseeable future. The Directors therefore do not recommend payment of a dividend.

Charitable and Political donations

No contributions were made to political organisations during the period. £1000 was donated to an environmental charity (see A5.2).

Employees

Further details on employees, health and safety, environmental matters and corporate social responsibility are contained in the Corporate Social Responsibility Statement in section A5.

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.

In addition, the contingent consideration payable to the former shareholders of Itaconix Corporation is expected to be re-structured, such changes being subject to completion of the ongoing refinancing and appropriate shareholder approval. The proposed new structure involves (i) a one time payment of 15m new Itaconix plc ordinary shares and (ii) the extension of the current deferred consideration timeline such that it ends in 2022 not 2020. 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. Furthermore item (ii) above will form the basis of the management team's non-salary incentive package, replacing the current cash bonus scheme and share option plan from 2018 to 2020 inclusive.

Substantial shareholdings

In addition to the Directors' interests, as disclosed in section B3, as at 8 June 2018 the Company had been notified of the following shareholdings amounting to 3% or more of the ordinary share capital of the Company:

Institution	Shares held	% holding
Woodford Investment Management	26,988,000	34.3%
IP Group	11,899,080	15.1%
Janus Henderson Investors	9,370,500	11.9%
Sand Aire	4,721,966	6.0%
Naxos Capital Partners SCA Sicar	3,456,853	4.4%
John Shaw	2,771,597	3.5%

The percentage interest has been calculated on the total voting rights of 78,717,948, being the Company's issued share capital on 31 March 2018. No other person has reported an interest in the ordinary shares of the Company required to be notified to the Company.

Going concern

The Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, based on its anticipated closing of a planned refinancing early in the second half of 2018, annual inflow and outflow of funds and current cash position. Accordingly, they have continued to adopt the going concern basis in preparing the financial statements. Further detail is given in section A4.

B4. Directors' report (continued)

Information presented in other sections

Certain information required to be included in a directors' report by Schedule 7, including references to future developments, research and development and financial instruments, can be found where applicable in the other sections of this Annual Report. All of the information presented in those sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

Information given to the auditor

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 auditor is unaware;
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Auditor

Ernst & Young LLP have expressed their willingness to continue in office as auditor. A resolution concerning their re-appointment will be proposed at the 2018 Annual General Meeting.

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

Robin Cridland
Chief Financial Officer and Company Secretary

12 July 2018

B5. Statement of Directors' responsibilities
In relation to the financial statements

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulations to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union.

Under company law the Directors must not approve accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company for that period. In preparing the financial statements, IAS 1 requires that the Directors:

- properly select and apply accounting policies;
- 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 is insufficient to enable users to understand the impact of particular transactions, other events or conditions on the entity's financial position and financial performance;
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm to the best of our knowledge that:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, 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;
- the Strategic Report and the Directors' Report include 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 they face.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

C. Independent auditor’s report
To the members of Itaconix plc

Opinion

In our opinion:

- Itaconix plc’s Group financial statements and parent company financial statements (the “financial statements”) give a true and fair view of the state of the Group’s and of the parent company’s affairs as at 31 December 2017 and of the Group’s loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Itaconix plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2017	Balance sheet as at 31 December 2017
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of other comprehensive income for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 29 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies	

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 and; as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial statements, which indicates that the Company is in the process of raising new equity capital from existing and new investors which the Directors expect to close in August 2018, subject to investor interest and shareholder approval. The Company needs to raise £3.0 million (net of costs) in order to have sufficient cash resources to meet its liabilities as they fall due over the next twelve months. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Overview of our audit approach

Key audit matters	• Revenue recognition • Valuation of goodwill and other intangible assets • Valuation of contingent consideration
Audit scope	• We performed an audit of the complete financial information of three of the components. • The components where we performed full scope audit procedures accounted for 100% of Loss before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall Group materiality of £39,700 which represents 1% of equity.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>Revenue recognition

Revenue – £0.55m (2016: £0.28m)

Refer to the Accounting policies in Note 2; and Note 4 of the Consolidated Financial Statements.

The Group has reported revenues of £0.55m (2016: £0.28m).

We focused on revenue recognition as there could be bias or error in the timing of revenues.

We identified specifically that there is risk of fraud or error in respect of improper revenue with regard to inappropriate cut off of revenue at the year end.</td><td>Our audit procedures included:
• We understood and assessed the design of key controls around the revenue recognition process. We did not seek to obtain reliance on the control framework;
• We assessed the revenue recognition policy for revenue in accordance with IAS 18 and consistency of application for the financial year;
• We performed testing of journal entries to identify and test manual journals to revenue;
• We tested a sample of transactions from throughout the year to invoice and evidence of dispatch;
• We performed cut off testing, using our testing threshold for revenue transactions either side of the balance sheet date;
• We performed audit procedures designed to address the risk of management override of controls including journal entry testing to confirm whether the processing and timing of journals to record revenue around the year-end are appropriate.</td><td>Based on the work performed, we did not identify any evidence of material misstatement in the revenue recognised in the year ended 31 December 2017.</td></tr>
</table>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of goodwill and other intangible assets **Intangible assets – £nil (2016: £10.1m)** *Refer to the Accounting policies in Note 2; and Note 14 of the Consolidated Financial Statements* At 31 December 2017, the carrying value of goodwill reported was £nil (2016: £6.65m) and other intangible assets was £nil (2016: £3.47m). Goodwill and other intangible assets have been impaired by £8.99m in the current financial year (2016: £nil). The Director's assessment of the "value in use" of the Group's Cash Generating Unit ("CGU") involves judgment about the future performance of the business and the discount rates applied to future cash flow forecasts. We focused on this area in 2017 due to the increase in estimation uncertainty in forecasts due to the present conditions in the take up of itaconic acid products in the market.	We challenged management's assumptions used in it's models for assessing the recoverability of the carry value of goodwill and other intangible assets. We focused on the methodology applied to estimate the value in use, discount rates and forecast cash flows. Specifically: • We have validated that the CGU identified is the lowest level at which management monitors goodwill and other intangible assets; • We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management's model; • We obtained an understanding of, and assessed the basis for key underlying assumptions for the five year forecast; • We have confirmed that the cash flow forecasts used in the valuation are consistent with information approved by the Board and have evaluated the appropriateness of the use of these forecasts in light of the historical accuracy of management's forecasts; • We challenged management on its cash flow forecasts and the implied growth rates for 2018 and beyond by considering evidence available that supported or contradicted these assumptions; • The discount rates and long term growth rates applied within the model were assessed by an EY business valuation specialist, including comparison to economic and industry forecasts where appropriate;	Based on the results of our work, we agree with management that the goodwill and other intangible assets should be fully impaired as at 31 December 2017. We concur with management's assessment that there is no impairment that should be applied to other assets contained within the CGU. We note that the value in use is dependent upon the achievement of the forecast revenues and profits in the five years to 2022.

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td></td><td>We performed sensitivity analyses by stress testing the key assumptions in the model with downside scenarios to understand the parameters that, should they arise, could lead to a different conclusion in respect of the carrying value of goodwill and other intangible assets.
We considered the appropriateness of the related disclosures provided in note 14 of the Group financial statements.</td><td></td></tr>
<tr><td>Valuation of contingent consideration

Contingent consideration – £0.61m (2016: £3.41m)

Refer to the Accounting policies in Note 2; and Note 20 of the Consolidated Financial Statements

The Group balance sheet reports a £0.61m (2016: £3.41m) provision for deferred or contingent consideration that arose from an acquisition in the prior period. The contingent consideration is subject to estimate uncertainty.</td><td>We have performed the following procedures:
Confirmed that the cash flow forecasts used in the measurement of the liability are consistent with the information approved by the Board and with those used in the impairment review noted above.
Evaluated the forecasts in light of historical accuracy of management's forecasts and subsequent results;
We tested the methodology applied in the calculations and the mathematical accuracy of management's model;
We performed sensitivity analyses by stress testing the key assumptions in the model with downside scenarios to understand the parameters that, should they arise, could lead to a different conclusion in respect of the value of the contingent consideration.</td><td>We concluded that the financial liabilities held in relation to earn out arrangements have been appropriately valued.

We note that the liability is dependent upon the achievement of the forecast revenues in the periods to 31 December 2020.

We agree with management's assessment of the reasonable possible changes in key assumptions that would result in a change in the provision and the disclosure given in note 20 to the financial statements.</td></tr>
</table>

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected all three reportable components within the Group.

Of the three components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics.

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's Loss before tax, 100% (2016: 100%) of the Group's Revenue and 100% (2016: 100%) of the Group's Total assets. For the current year, the full scope components contributed 100% (2016: 100%) of the Group's loss before tax 100% (2016: 100%) of the Group's Revenue and 100% (2016: 100%) of the Group's Total assets.

Changes from the prior year

There were no changes in scope from the prior year.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £39,700 (2016: £144,500), which is 1% (2016: 1%) of equity. We believe that equity provides us with the most relevant basis given the recurring losses of the Group.

We determined materiality for the Parent Company to be £41,500 (2016: £70,100), which is 0.5% (2016: 0.5%) of total assets. We consider that total assets is appropriate as the entity is an investment holding company that does not trade.

During the course of our audit, we reassessed initial materiality as a result of an adjustment made by management in respect of the impairment of the goodwill and other intangible assets, the release of the contingent consideration and the movement in the fair value of the deferred tax liability. The basis for calculating materiality remained consistency with the initial assessment.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £19,850 (2016: £72,250). We have set performance materiality at this percentage due to our past experience of the audit where we had concluded that there was a higher risk of misstatement, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £6,450 to £14,775 (2016: £12,000 to £35,000).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1,985 (2016: £7,225), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Mark Morritt (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

12 July 2018

Notes:

1. The maintenance and integrity of the Itaconix plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

D. The accounts

D1.1 Consolidated income statement

For the year ended 31 December 2017

	Notes	**2017 £'000**	2016 £'000
Continuing operations			
Revenue	4	**553**	285
Cost of sales		**(332)**	(230)
Gross profit		**221**	55
Other operating income	5	**112**	38
Administrative expenses		**(5,507)**	(5,275)
Group operating loss	6	**(5,174)**	(5,182)
Finance income	8	**1**	51
Exceptional income on revaluation of contingent consideration	20	**2,511**	–
Exceptional expense on impairment of intangible assets	14	**(8,992)**	–
Share of loss of associate	13	**(214)**	(508)
Loss before tax from continuing operations		**(11,868)**	(5,639)
Release of previously recognised deferred tax liability	9	**1,229**	–
Taxation credit	9	**465**	531
Loss for the year from continuing operations		**(10,174)**	(5,108)
Profit / (Loss) after tax for the year from discontinued operations	10	**33**	(608)
Loss for the year		**(10,141)**	(5,716)
Basic loss per share	11	**(12.9)p**	(8.2)p
Diluted loss per share	11	**(12.9)p**	(8.2)p
Basic loss per share from continuing operations	11	**(12.9)p**	(7.3)p
Diluted loss per share from continuing operations	11	**(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.

D1.2 Consolidated statement of other comprehensive income

For the year ended 31 December 2017

	Notes	**2017** **£'000**	2016 £'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)
Attributable to:			
Equity holders of parent		**(10,684)**	(4,277)

D1.3 Consolidated and company balance sheets

At 31 December 2017

		Group		Company	
		2017	2016	**2017**	2016
	Notes	**£'000**	£'000	**£'000**	£'000
Non-current assets					
Property, plant and equipment	15	**980**	803	**–**	–
Intangible assets	14	**–**	10,124	**–**	–
Trade and other receivables	17	**–**	–	**4,820**	3,446
Investment in subsidiary undertakings	12	**–**	–	**565**	6,078
Investment in associate undertakings	13	**–**	145	**–**	–
		980	11,072	**5,385**	9,524
Current assets					
Inventories	16	**271**	210	**–**	–
Trade and other receivables	17	**706**	835	**283**	78
Cash and cash equivalents	18	**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	23	**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	20	**607**	3,414	**607**	3,414
Deferred tax liability	9	**–**	1,458	**–**	–
		607	4,872	**607**	3,414
Current liabilities					
Trade and other payables	19	**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.

Robin Cridland
Director

D1.4 Consolidated and company statements of changes in equity

For the year ended 31 December 2017

Consolidated statement of changes in equity

	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

	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.

D1.5 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	24	**(4,659)**	(3,478)	**(85)**	(581)
Net cash outflow from discontinued operating activities	10	**–**	(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

D2. Notes to financial statements

For the year ended 31 December 2017

1. Introduction and statement of compliance with IFRS

The board has considered compliance with IFRS carefully, and made disclosures that it deems appropriate in the financial statements and notes, with emphasis to the reader where relevant.

The Group's financial statements have been prepared in accordance with EU International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies adopted by the Group are set out in note 2. The nature of the Group's operations and its principal activities are set out in section A3.

The Directors anticipate that the adoption of standards and interpretations issued, but not applied in these financial statements as not yet effective, will have no material impact on the financial statements of the Group, as further explained in note 2 below.

2. Accounting policies

Basis of preparation

Set out below are the main accounting policies which applied in preparing the financial statements for the years ended 31 December 2017 and 31 December 2016. 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 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.

Adoption of new and revised reporting standards

(a) Standards, or sections thereof, previously not adopted

No new standards were adopted in respect of 2017 that had a material impact on the financial statements.

(b) Standards issued but not yet effective

At the date of authorisation of these financial statements the following International Financial Reporting Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective. The Group will adopt these standards, if applicable, when they become effective:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- IFRS 16 Leases;

The adoption of IFRS 9 will require changes to the valuation and income recognition methods relating to the Group's receivables, borrowings and liabilities. This Standard will come into force with effect from the Group's financial statements for the year ending 31 December 2018, and management is assessing the potential impact on the Group's financial statements.

IFRS 15 will replace the standards currently governing the recognition of that part of the Group's income which does not derive directly from financial assets. It will come in to force with effect from the Group's financial statements for the year ending 31 December 2018, and management, having considered this standard, has concluded that it will not have a material impact on the Group's financial statements.

The adoption of IFRS 16 will require lessees to recognise assets and liabilities on the Group's balance sheet. It will come in to force with effect from the Group's financial statements for the year ending 31 December 2019, and management is assessing the potential impact on the Group's financial statements.

Other Standards and interpretations in issue but not effective (or amendments), if any, do not address matters that are significantly relevant to the Group's accounting and reporting and so have not been referenced here.

Consolidation

Following the incorporation of Revolymer plc (now Itaconix plc) in 2012 as the parent of Revolymer (U.K.) Limited (now Itaconix (U.K.) Limited), the Directors have consistently adopted common control combination accounting as the basis of consolidation in order to give a true and fair view of the financial performance of the Group. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has power over each subsidiary, the exposure, or rights to variable returns from its involvement with each subsidiary; and the ability to use its power over each subsidiary to affect the amount of the Company's returns.

In accordance with Section 408 of the Companies Act 2006, no profit and loss account is presented for the Company.

Business combinations, contingent consideration and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or liability, are recognised in accordance with IAS 39 in profit or loss.

The fair value of contingent consideration is determined by reference to the projected financial performance in relation to the specific contingent consideration criteria for each acquisition.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred over the fair value of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method. Each investment in an associate is recognised (and subsequently held) at cost when acquired.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss separate from operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At least at each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and charges it to "Share of profit or loss of associate" in the statement of profit or loss.

Discontinued operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

All other notes to the financial statements include amounts from continuing operations, unless otherwise mentioned.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from the sale of goods is recognised when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes. However, where goods are supplied when title does not irrevocably pass on delivery, it may not be appropriate to recognise all the revenue immediately. The Group provides for potential sales returns based on its actual experience of returns from customers in such cases. Where it has no such history it makes estimates by reference to minimum sales commitments in the relevant contract, or by reference, where available, to customer retail sales data or customer inventory levels at the financial year end, or based on other reasonable and relevant judgements.

Government grants and research income

Government grants and research income are recognised as a credit to the income statement where there is reasonable assurance that they will be received and all attaching conditions will be complied with.

When the income relates to an expense item, it is recognised as income over the period necessary to match it on a systematic basis to the costs that it is intended to compensate. Where the income relates to an asset, it is recognised as deferred income and released to income in equal annual amounts over the expected useful life of the related asset.

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

The Group will also capitalise development costs to the extent they are intangible assets arising on consolidation following an acquisition.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the year-end date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise. Exchange differences on non-monetary items are recognised in the statement of comprehensive income to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of comprehensive income, otherwise such gains and losses are recognised in the income statement.

The assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the year end date. Income and expenses are translated at the actual rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the 'Foreign currency retranslation reserve' in equity. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are transferred to the income statement as part of the gain or loss on disposal.

Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The treatment methods for each type of intangible fixed asset are:

Goodwill	Cost subject to annual impairment
Intellectual property acquired	Amortisation (and impairment if indicated)

Amortisation is calculated to write off the depreciable amount of an intangible asset with a finite useful life on a systematic basis over such life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The rates of amortisation currently applied are:

Intellectual property arising on consolidation of Itaconix Corporation	13 years*

*: based on the estimated life of the overall intellectual property portfolio acquired

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated to write off the cost less estimated residual value of all tangible assets over their expected useful economic life on a straight-line basis. The rates generally applicable are:

Short leasehold equipment	5 years
Plant and equipment	4 years
Computer and office equipment	3 years

Impairment of assets with finite lives

At each balance sheet date, the Group reviews the carrying amounts of its assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell 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 that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. The amount of the write-down is determined as the difference between the assets carrying amount and the present value of estimated future cash flows.

Cash, cash equivalents and investments

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand. Investments comprise funds placed on short term deposits.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undisclosed basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition contracts which result in the Group delivering a variable number of its own equity instruments are financial liabilities. Instruments which are legally share capital containing such obligations are classified as financial liabilities.

Trade and other payables

Trade payables are recognised and carried at their original invoiced value. Where the time value of money is material, payables are carried at amortised cost.

Inventory valuation

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

Share based payments

IFRS 2 requires the recognition of equity settled share based payments at fair value at the date of the grant and the recognition of liabilities for cash settled share based payments at the current fair value at each balance sheet date. All equity settled share based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to the share based payment reserve.

If vesting periods or other non market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and where appropriate, share premium. When nil cost options are exercised the nominal value of the shares issued is charged to retained earnings.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Dividends and distributions relating to equity instruments are debited direct to equity.

Exceptional items

The Group has classified the impairment of the goodwill and other intangible assets and the fair value adjustment of the contingent consideration as exceptional items in the income statement. These items are not considered to reoccur and are of such significance to the results that they have been presented as exceptional to provide a fair and balanced presentation in the financial statements.

3. Critical accounting assumptions and key sources of estimation uncertainty

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made a number of judgements. Those which have the most significant effect on the amounts recognised in the financial statements are summarised below:

Amortisation or review for impairment of acquired intangible assets and other assets at the period end

The intangible assets identified out of the purchase price allocation process following the acquisition of Itaconix Corporation were intellectual property and customer relationships, and the balance to reconcile from 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. It is also reviewed for impairment if indicators of impairment exist.

Since the customer relationships are not governed by any commercial contracts with specified durations, it is not possible to amortise them over a fixed term. They are reviewed for impairment if indicators of impairment exist.

Goodwill is reviewed for impairment at each period end by way of comparison to the value in use of the cash generating unit to which it relates, as estimated using discounted cash flow techniques. The key inputs in this assessment are management forecasts and the discount rate, both of which are updated each time value is assessed. Should all intangible assets be written off, any further impairment indicated by the value in use of the relevant cash generating unit is charged to non-current tangible assets.

Valuation of contingent consideration

The value of any contingent consideration is also reviewed at each period end by way of comparison to the value of expected future payments, as estimated using appropriate methodologies, e.g. discounted cash flow techniques.

Accounting for the investment in Alkalon

On completion of the divestment of the nicotine gum business, the consideration to Itaconix was 15% of the equity of the new business resulting from the combination of the divested business and Alkalon's existing business. In addition, the Group has the right to appoint a director to the board of Alkalon (which it has exercised), and following certain commercial contracts awarded to Alkalon during the year the interest owned by Itaconix increased to 17.4%. Taking these factors into account, management judges it appropriate to equity account for the investment in Alkalon under IAS 28 as an associate. At each period end the carrying value of the investment in Alkalon is also reviewed for impairment with a view to assessing recoverability.

Share based payment cost

The estimation of share based payment costs requires the selection of an appropriate valuation model, considerations as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market performance conditions and the continuing participation of employees (see Note 25).

Functional currency

Each year management considers the appropriate functional currency for reporting to ensure it reflects the primary economic environment in which the business operates.

Fair value of Group indebtedness (Company only)

The fair value of amounts owing from group companies is impaired in those cases where the subsidiary is, at the balance sheet date, both illiquid and not yet generating positive cash flows, or otherwise highly unlikely to repay such indebtedness (see Note 17).

4. 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 (see Note 10).

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.

5. Other operating income

	2017	2016
	£'000	£'000
Grant and research income	**112**	38
	112	38

6. Group operating loss

This is stated after charging:

	2017	2016
	£'000	£'000
Auditor's remuneration:		
Audit of the financial statements	**10**	10
Audit of the subsidiaries	**47**	54
Non-audit services	**7**	10
Total fees	**64**	74
Equity settled share based payment expense	**184**	136
Employer's national insurance (credit) associated with vested share options	**(55)**	(108)
Depreciation of owned assets	**259**	202
Amortisation of intangible assets	**267**	132
Impairment of intangible assets	**–**	29
Minimum operating lease payments:		
– land and buildings	**345**	69
Research and development expenditure	**1,080**	1,786
Itaconix acquisition expenses	**–**	190
Foreign exchange differences	**83**	627

7. Staff costs

Staff costs for the Group, including Directors, consist of:

	2017	2016
	£'000	£'000
Wages and salaries	**2,993**	2,319
Invoiced by third parties	**15**	15
Post-employment benefits	**130**	84
Equity settled share based payment expense	**184**	136
	3,322	2,554

Details of Directors' fees are included in the Directors' Remuneration Report in section B3.

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

	2017	2016
	No.	No.
Executive Directors	**2**	2
Non-executive Directors	**4**	5
Research and development	**24**	25
Finance and administration	**4**	3
Sales	**2**	3
Production	**2**	1
Contract staff	**1**	2
	39	41

Itaconix plc had no employees other than the Directors.

8. Finance income

	2017	2016
	£'000	£'000
Interest receivable on bank deposits	**1**	51

9. 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 £'000	Restated 2016* £'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 14.

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.

10. Discontinued operations

On 16 September 2016, the Group announced that it had entered into agreements for the divestment of the nicotine gum business to Alkalon A/S, a Danish company, with completion subject to the satisfaction of certain conditions precedent including the transfer of key customer contracts and product licences to Alkalon. Completion was announced on 2 November 2016.

The results of the Nicotine Gum segment for the year are presented below:

	2017 £'000	2016 £'000
Revenue*	**25**	1,127
Cost of sales*	**8**	(948)
Gross profit	**33**	179
Administrative expenses	**–**	(787)
Impairment loss recognised on the re-measurement to fair value less costs to sell	**–**	–
Profit / (Loss) before tax from discontinued operations	**33**	(608)
Tax benefit: Related to current pre-tax loss	**–**	–
Tax benefit: Related to re-measurement to fair value less costs to sell (deferred tax)	**–**	–
Profit / (Loss) for the year from discontinued operations	**33**	(608)

*: In 2017, £25k of a sales return provision in respect of nicotine gum sales made prior to the disposal of the nicotine gum business and related cost accruals were released as the directors consider that they were no longer required at the year end date.

Administrative expenses are stated after charging:

Depreciation	**–**	(8)

The net cash flows incurred by the Nicotine Gum segment are, as follows:

	2017 **£'000**	2016 £'000
Operating	**–**	(1,250)
Investing	**–**	–
Financing	**–**	–
Net cash outflow	**–**	(1,250)

Earnings per share:

	2017	2016
Basic profit / (loss) for the year from discontinued operations	**0.0p**	(0.9p)
Diluted profit / (loss) for the year from discontinued operations	**0.0p**	(0.9p)

11. 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.

Loss	**Continuing operations 2017 £'000**	**Discontinued operations 2017 £'000**	**Total 2017 £'000**	Continuing operations 2016 £'000	Discontinued operations 2016 £'000	Total 2016 £'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 (note 26) would have the effect of reducing the loss per ordinary share and would therefore not be dilutive.

12. Investment in subsidiary undertakings

As a result of reduced forecasts for the Group including the products acquired with Itaconix Corporation in 2016, management has fully impaired the intangible assets arising on acquisition as detailed in note 14, and has also impaired the value of the investment in Itaconix Corporation in the Company balance sheet proportionate to its shareholding. Impairment was calculated by comparing the asset carrying values with the value in use of the relevant cash generating unit, using discounted cash flow techniques. Notwithstanding this, it still expects the Group to become a profitable specialty chemicals business in the medium term, and to secure funding to the point of break even.

	Company £'000
At 1 January 2016	277
Share based payments	136
Increase in investment in Itaconix (UK) Limited	5,665
At 31 December 2016	6,078
Share based payments	184
Impairment	(5,697)
At 31 December 2017	565

Name	Principal activity	Place of incorporation and operation	Proportion of ownership interest
Direct investments:			
Itaconix (U.K.) Limited (1)	UK operating company	England	100%
Revolymer EBT Limited (1)	Trustee of Revolymer employee benefit trust	England	100%
Indirect investments			
Itaconix Corporation (2)	Trading US subsidiary of Itaconix (U.K.) Ltd	USA	100%

(1) The registered address is 1 Newtech Square, Zone 2, Deeside Industrial Park, Deeside, Flintshire, CH5 2NT, UK

(2) The registered address is 2 Marin Way, Stratham, NH 03885, USA

13. 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 **£'000**	2016 £'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 **£'000**	2016 £'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.

14. 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 20.

15. Property, plant and equipment

Group	Computer and office equipment £'000	Plant and equipment £'000	Short Leasehold equipment £'000	Total £'000
Cost				
At 1 January 2016	173	1,260	271	1,704
Additions	26	469	23	518
Acquired through subsidiary	12	104	65	181
Disposals of assets to associate	–	(131)	–	(131)
At 1 January 2017	211	1,702	359	2,272
Additions	18	418	–	436
Disposals	(30)	(17)	(17)	(64)
At 31 December 2017	**199**	**2,103**	**342**	**2,644**
Accumulated depreciation				
At 1 January 2016	157	973	234	1,364
Charge	14	152	44	210
Eliminated on disposal of assets to associate	–	(105)	–	(105)
At 1 January 2017	171	1,020	278	1,469
Charge	21	217	21	259
Eliminated on disposal	(30)	(17)	(17)	(64)
At 31 December 2017	**162**	**1,220**	**282**	**1,664**
Carrying Amount				
At 31 December 2017	**37**	**883**	**60**	**980**
At 31 December 2016	40	682	81	803

Since intangible assets have been fully impaired as at 31 December 2017 (see note 14), any further reduction in the future of the value in use of the Itaconix Corporation CGU will result in impairment of tangible non-current assets (which at 31 December 2017 are primarily made up of property, plant and equipment).

In the VIU assessment described in note 14:

- if the discount rate was increased by 1% this would result in a further £1.1m impairment, and
- if the 2022 sales forecast was reduced by £1m this would result in a further £0.3m impairment

which would reduce the value of tangible non-current assets.

16. Inventories

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

17. Trade and other receivables

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Current assets				
Trade receivables	**127**	65	**–**	–
Amounts due from associate	**45**	17	**–**	–
Amounts owed by Group companies	**–**	–	**–**	–
Other receivables	**534**	753	**283**	78
	706	835	283	78

Trade receivables are non-interest bearing and are generally on 30 day terms.

In June 2017 the Group loaned its pro rata share (DKK375k or around GBP45k) of a DKK2.5m (around GBP295k) unsecured shareholder loan to its associate Alkalon. The term of the loan is 12 months and the interest rate 4.5%. The loan is however subordinate to the credit facility that Alkalon has with its bank Danske Bank, and can only be repaid if the Danske Bank credit facility is repaid. Since this has not yet occurred, the shareholder loan remains outstanding.

As at 31 December 2017, a provision of £nil (2016 – £nil) has been made to trade receivables that were considered to be impaired.

Included in other receivables is £363k (2016: £500k) of R&D tax credit receivables (see note 9).

The Company loss for the year includes a release of fair value impairment of group indebtedness of £343k resulting from a movement in provisions for this indebtedness (2016: charge £4,761k).

As at 31 December 2017 the balance of the fair value of impaired debt from Group undertakings is £19,761k (2016: £20,104k).

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

Group	**Total £'000**	**Neither past due nor impaired £'000**	**<30 days £'000**	**30–60 days £'000**	**60–90 days £'000**	**90–120 days £'000**	**>120 days £'000**
2017	127	–	86	41	–	–	–
2016	65	–	39	26	–	–	–

The fair value of amounts owing from Group companies to the Company has been impaired to the extent the subsidiary (ie Itaconix (U.K) Limited) is, at the balance sheet date, both illiquid and not yet generating positive cash flows, or otherwise unlikely to repay such indebtedness.

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Non-current assets				
Amounts owed by Group companies	**–**	–	**4,820**	3,446
	–	–	**4,820**	3,446

18. Cash and cash equivalents

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

Analysis of cash and cash equivalents disclosed in the cash flow statement:

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	3,606	8,789	2,638	4,424

Credit, liquidity and market risk

The Group's principal financial assets are bank balances. The credit risk on these assets is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Directors have carefully reviewed the carrying value of the Group's financial assets and consider that at the date of this report no impairment in those values is anticipated.

19. Trade and other payables

	Group		Company	
	2016	2016	**2016**	2016
	£'000	£'000	**£'000**	£'000
Current liabilities				
Trade payables	**162**	412	**16**	27
Amounts due to associate	**9**	20	**–**	–
Other payables and accruals	**815**	1,148	**48**	20
	986	1,580	**64**	47

The Directors consider that the carrying amount of trade and other payables approximate to their fair value.

20. Provisions

	Contingent consideration			
	Group		Company	
	2017	2016 Restated*	**2017**	2016 Restated*
	£'000	£'000	**£'000**	£'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).

21. Financial instruments

Financial risk management objectives and policies

The Group currently finances its operations by raising finance through equity. No speculative treasury transactions and no derivatives are entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, receivables and payables.

Interest rate risk

The Group finances its operations principally from equity funding and has no debt. Therefore the downside risk associated with changes in interest rates is minimal. No sensitivity analysis has been presented for changes in interest rates as these do not have a material impact on the loss before tax.

Currency risk

During the year, the Group received revenue in GBP, CAD and USD, whilst the majority of its cost base is in GBP. These receipts are currently relatively small and tend to be used first to cover costs in the same currency before conversion to GBP, and so currency risk impacting cash balances is deemed to be appropriately managed. However, the acquisition of US-based Itaconix Corporation in the middle of the previous year means that this risk profile has changed and will be continued to be kept under close review accordingly. Specifically, a loan from Itaconix plc to Itaconix Corporation to fund the US operations is denominated in USD and so is re-translated to GBP each period end, potentially resulting in significant debits or credits to the Company's profit and loss but with no cash or other impact on the Group as the loan is eliminated on consolidation. Further, the deferred consideration payable to the former shareholders of Itaconix Corporation is denominated in USD and, as well as being revalued based on likelihood of payment, is retranslated to GBP each period end, potentially resulting in significant non cash debits or credits to the Company and Group's profit and loss. Management notes that such foreign exchange movements are non cash items. No forward foreign exchange contracts were entered into during the period (2016: Nil). At 31 December 2017 the bank balances on hand of foreign currencies were:

Currency	**2017**	2016
USD	**180,717**	124,059
CAD	**80,776**	490,103
EUR	**1,102**	23,862

The foreign currency balances are in aggregate smaller than at the end of 2016, which is due in part to the divestment of the nicotine business. No sensitivity analysis has been presented for changes in currency exchange rates, although management will keep the need for sensitivity analysis under regular review going forward, in the light of the acquisition of a US-based Itaconix Corporation.

Liquidity risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group's policy through the period has been to ensure continuity of funding by equity. The table below summarises the maturity profile of the Group's financial liabilities at the year-end based on contractual undiscounted payments.

At 31 December 2017:

Group	**On demand £'000**	**Less than 3 months £'000**	**3 to 12 months £'000**	**1 to 5 years £'000**	**> 5 years £'000**	**Total £'000**
Trade and other payables	**–**	**560**	**426**	**–**	**–**	**986**
Finance lease obligations	**–**	**–**	**–**	**–**	**–**	**–**
	–	**560**	**426**	**–**	**–**	**986**

At 31 December 2016:

Group	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Trade and other payables	–	1,276	304	–	–	1,580
Finance lease obligations	–	–	–	–	–	–
	–	1,276	304	–	–	1,580

All of the trade and other payables balances (£64k) of the Company are due for payment in less than three months (2016: £47k less than three months)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. To manage its capital structure the Company may issue new shares. No changes were made in the objectives, policies or processes during the periods ended 31 December 2017 and 31 December 2016.

Interest rates and maturity profiles of financial assets and liabilities

The interest rates and maturity profiles of the Group's financial assets and liabilities is as follows:

At 31 December 2017:

	Within 1year £'000	**1-2 Years £'000**	**2-3 Years £'000**	**3 to 4 Years £'000**	**4 to 5 Years £'000**	**Over 5 Years £'000**	**Total £'000**
Group							
Investments	–	–	–	–	–	–	–
Cash and cash equivalents	**3,606**	–	–	–	–	–	**3,606**
	3,606	–	–	–	–	–	**3,606**
Company							
Investments	–	–	–	–	–	–	–
Cash and cash equivalents	**2,638**	–	–	–	–	–	**2,638**
	2,638	–	–	–	–	–	**2,638**

The range of interest rates applicable to instant access deposit accounts and term deposits at 31 December 2017 was 0.25% to 1.00% per annum (2016: 0.25% to 1.00%).

At 31 December 2016:

	Within 1 year £'000	1-2 Years £'000	2-3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000	Over 5 Years £'000	Total £'000
Group							
Investments	–	–	–	–	–	–	–
Cash and cash equivalents	8,789	–	–	–	–	–	8,789
	8,789	–	–	–	–	–	8,789
Company							
Investments	–	–	–	–	–	–	–
Cash and cash equivalents	4,424	–	–	–	–	–	4,424
	4,424	–	–	–	–	–	4,424

Committed facilities

The Group has no floating rate committed borrowing facilities as at 31 December 2017 (2016: nil).

There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements. This is due to the fact that they are of short maturity and if payable on demand the fair value is not materially different from the carrying value.

22. Commitments

Operating lease arrangements

The Group leases certain assets on an operating lease basis. At the balance sheet date, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Within one year	**334**	87	–	–
In two to five years	**378**	300	–	–
Over five years	**–**	–	**–**	–
Total future minimum lease payments	**712**	387	–	–

Other commitments

At 31 December 2017, the Group had capital commitments of £nil (2016: £468k relating to the cost of completion of a new manufacturing facility in the USA).

23. 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 Inc (see Note 14).

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.

24. Notes to the statements of cash flow

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'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)

25. Share based payments

An expense is recognised for share based payments based on the fair value of the awards at the date of grant, the estimated number of shares that will vest and the vesting period of each award. The charge for share based payments for the period to 31 December 2017 is £184k (2016: £136k) as disclosed in note 6.

During the year to 31 December 2017 4,512,460 share options (2016: 3,317,997) were granted under the Itaconix LTIP scheme as either approved options (under the HMRC approved EMI scheme) or unapproved options. The management team received nil cost share options (either HMRC approved or unapproved) with market facing performance conditions required for vesting (“Management Options”). The fair value of Management Options as at the date of grant was therefore estimated using a Monte Carlo simulation model. The remaining employees received share options under the EMI scheme without market facing performance conditions (and with an exercise price of the market price as at the date of grant of £0.24 (2016: £0.34)) (“Employee Options”). Accordingly the fair value of the Employee Options was estimated as at the date of grant using a Black Scholes model. Both models took into account the terms and conditions upon which the options were granted using the following assumptions.

Grant date	**Unapproved Management Options**	**EMI Management Options**	**EMI Employee EMI**
2017 Option Grant			
Number of options granted	**2,096,282**	**1,582,127**	**834,051**
Exercise price	**£nil**	**£nil**	**£0.235**
Expected volatility	**33.1%**	**33.1%**	**33.1%**
Risk free rate	**0.4%**	**0.4%**	**0.4%**
Expected dividend yield	**0%**	**0%**	**0%**
Expected option life	**36 months**	**36 months**	**36 months**
2016 Option Grant			
Number of options granted	1,991,911	352,941	973,145
Exercise price	£nil	£nil	£0.335
Expected volatility	30.8%	30.8%	30.8%
Risk free rate	0.2%	0.2%	0.2%
Expected dividend yield	0%	0%	0%
Expected option life	31 months	31 months	31 months

The Employee Options have a vesting period of 36 months (2016: 31 months) with no performance criteria. The vesting period of the Management Options is also 36 months (2016: 31months) but they only become exercisable if challenging market facing performance conditions are met; namely that 50% of the grant becomes exercisable if the weighted average ordinary share price in the 180 day period ending on 31 May 2020 of grant is £0.40. Between weighted average ordinary share prices of £0.40 and £0.55, vesting shall be pro-rata and on a straight line basis between 50% and 100%. Below £0.40 the grants are not exercisable and lapse in full.

The valuation methodology used in valuing share based payments includes the key assumptions shown above. Management have revisited and amended the assumptions in respect of expected volatility and risk free rate in the year to 31 December 2017. The charge for share based payments for the period to 31 December 2017 is accordingly £184k (31 December 2016 £136k).

Employee share option plan – unvested options

During the year the Company operated an employee share option plan (“the EMI plan”) for the benefit of certain employees of the Company.

All options granted in the year are subject to the employee completing a specified period of service. All options lapse when the employee ceases to be employed by the Company.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, unvested share options outstanding under the "EMI plan" during the year:

Unvested	2017 Number of shares	2017 WAEP	2016 Number of shares	2016 WAEP
Balance at beginning of year	**2,947,888**	**£0.24**	1,798,502	£0.30
Awarded during year	**2,416,178**	**£0.08**	1,326,086	£0.21
Lapsed during the year	**(1,622,229)**	**£0.23**	(176,700)	£0.60
Unvested options at end of year	**3,741,837**	**£0.14**	2,947,888	£0.24

Unapproved share option plan – unvested options

During the year, the Company operated a share option plan for the benefit of employees who had received grants under the EMI plan up to their personal limits.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, unvested share options outstanding under the Unapproved plan during the year:

Unvested	2017 Number of shares	2017 WAEP	2016 Number of shares	2016 WAEP
Balance at beginning of year	**4,062,209**	**£nil**	2,070,298	£nil
Awarded during year	**2,096,282**	**£nil**	1,991,911	£nil
Unvested options at end of year	**6,158,491**	**£nil**	4,062,209	£nil

Summary of all options – vested and unvested

The following table summarises the position regarding all share options whether vested or not, including those that vested at Admission in 2012:

Vested and unvested	2017 Number of shares	2017 WAEP	2016 Number of shares	2016 WAEP
Balance at beginning of year	**8,387,620**	**£0.12**	6,045,280	£0.14
Awarded during the year	**4,512,460**	**£0.04**	3,317,997	£0.09
Lapsed during the year	**(2,889,503)**	**£0.14**	(969,657)	£0.11
Exercised during the year	**(133,500)**	**£0.12**	(6,000)	£0.26
Balance at end of year	**9,877,077**	**£0.08**	8,387,620	£0.12

26. Related party transactions

Transactions with key management personnel

Remuneration of key management personnel

The remuneration of the Directors, who are considered to be the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2017 £'000	2016 £'000
Salaries and other short-term employee benefits	**690**	783
Post-employment benefits	**42**	42
Directors' fees invoiced by third parties	**15**	15
Equity settled share based payment (credit) / expense	**75**	50
	822	890

Other related party transactions

The Group entered into the following related party transactions during the current and prior year:

IP2IPO invoiced the Group for the services of Mr Townend who has served on the Board of Itaconix plc.

In 2017 the Group invoiced Alkalon for the travel expenses of the mutual board member Robin Cridland for attending the Alkalon board meetings in the year. In 2016 the Group invoiced Alkalon for the services of its employee Jonathan Swanston, who assisted in the transfer of the nicotine business to Alkalon. The Group also acted as an agent for Alkalon in its conduct of the nicotine gum business following completion of the divestment, pending the novation and assignment of key nicotine gum contracts in favour of Alkalon. Alkalon is an associate company of the Group.

2017	**Receipts from related parties £'000**	**Payments to related parties £'000**	**Amounts due to related parties £'000**	**Amounts due from related parties £'000**
IP2IPO Services Limited	–	15	4	–
Alkalon A/S	3	–	–	–

2016	Receipts from related parties £'000	Payments to related parties £'000	Amounts due to related parties £'000	Amounts due from related parties £'000
IP2IPO Services Limited	–	15	4	–
Alkalon A/S	34	–	–	17

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. There have been no write-offs of related party balances during the year and there are no provisions against any related party balances. The terms and conditions of related party transactions are the same as those for other debtors and creditors.

27. Contingent assets

There were no contingent assets in 2017

28. 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.

29. 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 20.

E. Appendices to the Annual Report

ITACONIX PLC

(incorporated and registered in England and Wales under the Companies Act 2006 with registered number 08024489)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Itaconix plc (the "**Company**") will be held at the offices of Fieldfisher LLP, Riverbank House, 2 Swan Lane, London EC4R 3TT on Thursday 9 August 2018 at 11.00 a.m. (the "AGM") to consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 10 will be proposed as ordinary resolutions of the Company.

1. To receive and consider the Company's Annual Report and Financial Statements for the year to 31 December 2017 (excluding the Directors' Remuneration Report).

2. To receive and adopt the Directors' Remuneration Report contained in the Annual Report and Financial Statements for the year to 31 December 2017.

3. To re-elect Kevin Matthews as an executive Director.

4. To re-elect Robin Cridland as an executive Director.

5. To re-elect Bryan Dobson as a Non-executive Director.

6. To re-elect Julian Heslop as a Non-executive Director.

7. To re-elect Michael Townend as a Non-executive Director.

8. To re-elect Jim Barber as a Non-executive Director.

9. To re-appoint Ernst & Young LLP as auditors of the Company to hold office from the conclusion of the AGM to the conclusion of the next AGM at which accounts are laid before the Company.

10. To authorise the Directors to determine the remuneration of the auditors.

By order of the Board

Robin Cridland
Company Secretary
12 July 2018

Notes

1. A shareholder entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of him or her. The proxy need not be a member of the Company. Where a shareholder appoints more than one proxy, each proxy must be appointed in respect of different shares comprised in his or her shareholding which must be identified on the proxy form. Each such proxy will have the right to vote on a poll in respect of the number of votes attaching to the number of shares in respect of which the proxy has been appointed but such proxies will only be entitled to one vote between them on a show of hands. The proxy who is to exercise the one vote on a show of hands must be identified on the appropriate proxy form. Where more than one joint shareholder purports to appoint a proxy in respect of the same shares, only the appointment by the most senior shareholder will be accepted as determined by the order in which their names appear in the Company's Register of Members. If you wish your proxy to speak at the meeting, you should appoint a proxy other than the Chairman of the meeting and give your instructions to that proxy.

2. To be effective an instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the offices of Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received no later than 11.00 a.m. on Tuesday 7 August 2018 except that: (a) should the meeting be adjourned, such deposit may be made not later than 48 hours before the time of the adjourned meeting; and (b) in the case of a poll taken more than 48 hours after it was demanded, such deposit may be made not later than 24 hours before the time appointed for the taking of the poll.

3. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. 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 made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("**EUI**") specifications and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it relates to 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 RA10) by the latest time(s) for receipt of the proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken by 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. 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. CREST members and, where applicable, their CREST sponsors or voting service providers, should note that EUI does 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 a particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

4. Any corporation which is a member can authorise one or more person(s) to act as its representative(s) at the meeting.

5. An abstention (or "vote withheld") option has been included on the Form of Proxy. The legal effect of choosing the abstention option on any resolution is that the shareholder concerned will be treated as not having voted on the relevant resolution. The number of votes in respect of which there are abstentions, will however, be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.

6. In accordance with Regulation 41 of the Uncertified Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company as at close of business on Tuesday 7 August 2018 or, in the event that the meeting is adjourned, in such register not later than 48 hours before the time of the adjourned meeting, shall be entitled to attend, or vote (whether in person or by proxy) at the meeting in respect of the number of shares registered in their names at the relevant time. Changes after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.

7. If you are a person who has been nominated under section 146 of the 2006 Act to enjoy information rights, you may have a right, under an agreement between you and the shareholder who has nominated you, to be appointed or to have someone else appointed for you as a proxy for the meeting. If you do not have such a right, or you do have such a right but do not wish to exercise it, you may have a right under such an agreement to give instructions to the shareholder who nominated you as to the exercise of the voting rights attached to the ordinary shares in respect of which you have been nominated.

8. As at 28 June 2018, being the last practicable date before the publication of this notice, the Company's issued share capital consists of 78,717,948 ordinary shares, carrying one vote each. No shares are held as treasury shares and therefore the total number of votes at such date is 78,717,948.

9. Copies of Directors' service contracts and letters of appointment will be available for inspection for at least 15 minutes prior to the meeting and during the meeting.

10. If you have any questions, please call us on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

Corporate Information

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Patent Agent

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