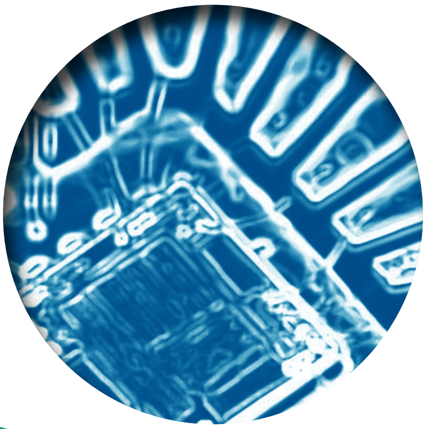
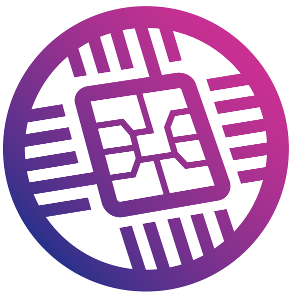
Science-led Materials Discovery

Ilika plc

Fast-tracking materials discovery





Ilika plc
Annual Report and Accounts 2013

Ilika plc invents, tests and selects materials in the laboratory that can be selected for scale-up and everyday commercial use.

Our strengths

- Validated technology platform protected by globally granted patents
- Proven ability to attract blue-chip multinational commercialisation partners from high growth markets
- Innovative business model that combines low-risk product development revenue with substantial upside from licensing

Business Review

Corporate Governance

Financial Statements

Ilika focuses on two key sectors:

- **Energy** where Ilika assesses materials for their greater capacity for energy storage and conversion efficiency, for example in batteries
- **Electronics** where materials created by Ilika rapidly improve the performance and efficiency of a range of electronic components, such as digital memory devices and sensors

Scan here for more information on our business

For more information, visit our website at: www.ilika.com

Ilika at a glance

Ilika's unique process is far quicker and more efficient than traditional materials discovery processes.

Ilika uses high-throughput, or combinatorial, techniques which involve the rapid synthesis of a large number of different structurally related materials in a few automated steps.

How we generate growth

Rapid discovery of new materials

Early engagement of large multinational partners which co-fund the route to commercialisation

Existing commercial agreements underpin revenue, strong pipeline in place, IP value amplification opportunities

Our key differentiators
High throughput materials discovery

- 10–100x faster and more reliable than traditional discovery methods
- Creates output equivalent to 100s of individual materials
- Unique patent-protected platform
- Rapid identification of materials suitable for industrial scale-up

Combinatorial synthesis
Ilika's High Throughput Physical Vapour Deposition ('HT-PVD') facility can deposit large numbers of films of different composition in one automated experimental run. The deposition of all elements occurs simultaneously and the composition profile can be carefully varied across the substrate in a controlled manner.

Characterisation/screening
Large numbers of samples are screened and characterised using automated, high throughput techniques. Unique sample arrays allow the many different compositions synthesised to be analysed in a rapid manner for specific, sought-after, behaviours.

Informatics
A range of specialised, in-house software controls the instrumentation associated with our workflows and also enables the rapid, simultaneous collection of large datasets which are then processed, analysed and presented so that meaningful conclusions about material properties can be drawn.

Key products

Fuel cell catalysts

Shipments of fuel cells continue to be dominated by proton exchange membrane ('PEM') technology, which grew 87 percent in 2011 compared to 2010. The technology is dependent on platinum containing electrodes, which are the most expensive components in the fuel cells.

It is widely recognised that cost reduction of these electrodes is necessary to enable widespread commercialisation of PEM technology.

Ilika's proprietary low cost catalysts have been tested by an independent fuel cell testing company and material transfer agreements are now in place with the global top three automotive manufacturers.

Solid-state batteries

The market for lithium-ion batteries is being driven today by demand for consumer electronics, but the car makers are also adopting the technology for hybrid electric vehicles.

In order to deliver the fuel economy benefits of hybrid and electric vehicles, batteries are required which can store energy in a small volume, but can also charge and discharge rapidly while remaining safe.

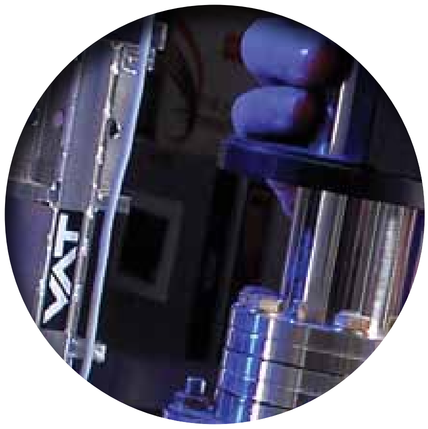
Ilika has worked with Toyota since 2008 on the development of novel battery chemistries that can fulfill these objectives.

Meeting market requirements

- In most developed countries, 1/3 of total domestic energy demand is required for transport applications
- Hydrocarbons used for transport fuel have an attractive energy density, making them difficult to replace with low-carbon alternatives
- Battery technology is the most widely used method of storing low-carbon portable energy, currently mainly in consumer electronics, but also to an increasing extent for hybrid and electric vehicles.

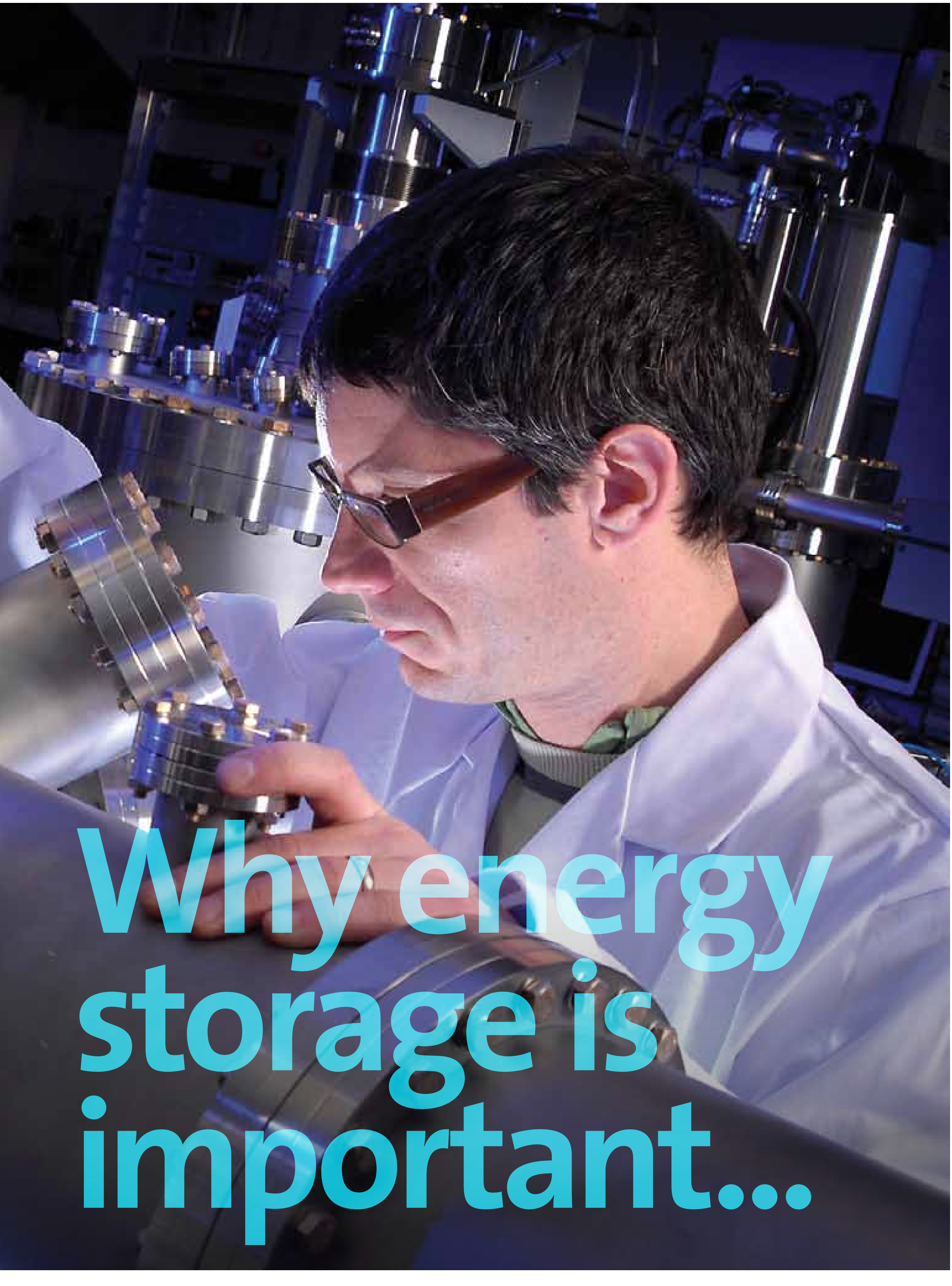
QUESTION
How much energy can a battery hold?
The most widely sold batteries are the lead-acid batteries used to power start-motors in motor cars. These hold 60–75 Wh/L (watt-hours per litre, or energy per standard volume), which is about 1/100th of the energy contained in a similar volume of petrol or diesel. Lithium-ion batteries can pack more energy into the same volume and hold about four times the amount of energy stored in the same volume of lead acid battery, but this is still only about 1/25th of the energy stored in the same volume of hydrocarbon.

QUESTION
Are batteries safe to use in a car?
There have been incidents of batteries catching fire in consumer electronics, electric vehicles and, in the full glare of publicity, in high profile new aircraft. Although these incidents are rare, they are very costly for manufacturers because of the damage to corporate reputation, the cost of product recall and the loss of market share. There are many more vehicle fires due to petrol tanks exploding during accidents and engines catching fire, but car manufacturers are keen to go to extreme lengths to ensure the safety of batteries in hybrid and electric vehicles. This is one of the principal reasons for Toyota's interest in solid-state battery technology.



QUESTION
How can the capacity of a battery be improved?
The amount of energy that can be contained in a battery can only be significantly improved by changing the materials from which the battery is made. A battery is a package of cells controlled by a battery management system. Each cell is a sealed unit containing two electrodes in a common electrolyte, usually separated by a polymer separator. Much of the development work related to batteries is concerned with the improvement of the ability of the electrode materials to hold charge, which defines the capacity of the battery. Solid-state batteries can also result in higher energy densities by replacing the separator and liquid electrolyte with a thin solid electrolyte.

QUESTION
What will batteries look like in the future?
Substantial progress has been made in recent years in the miniaturisation of batteries since the commercialisation of lithium-ion batteries. However, the term 'lithium-ion' is an umbrella term covering many different material types. Work is still ongoing to refine and improve lithium-ion technology. Ilika is working on these improvements with some of the world's leading materials suppliers and battery manufacturers. However, orders of magnitude improvements in battery capacity will only be achieved by radical new concepts such as lithium-air designs, which are currently in their infancy.


Why energy storage is important...

Commercial engagement

Market requirement:

- Higher energy density
- Faster charge and discharge times

Solution:

- Advanced electrode and electrolyte materials for lithium-ion batteries

Status:

- Partnered with Toyota since 2008
- Seven contract renewals
- Potential for licensing into different markets and to additional partners

Market for lithium-ion batteries

The 2012 market size for lithium-ion batteries was $11 billion, with growth largely driven by portable consumer electronics. In 2012, many of the hybrid electric vehicle manufacturers switched from nickel metal hydride technology to lithium-ion batteries. This switch has given new impetus to the market growth because even a small market for hybrid and electric vehicles will be a very large market for batteries.

Lithium-ion supply chain

Japan's dominance of the lithium-ion battery market peaked in 2000, when 85 percent of lithium-ion batteries were produced there. Since then China and, more rapidly, Korea, have been gaining market share. In 2012, Korean companies held about 40 percent of the market while Japanese companies held 36 percent, with China holding the rest. The growth of the market has attracted large chemical companies from around the world, including the US and Europe, to the supply chain.

Customer relationships

Ilika now has customer relationships with materials manufacturing companies, battery manufacturers and automotive original equipment manufacturers ('OEMs'). Toyota has sold by far the most hybrid vehicles through the success of its Prius model, and is regarded by the industry as the leader in this sector. Ilika has had a very productive commercial relationship with Toyota since 2008 and holds joint patents on some of the novel materials and production methods that have been jointly invented.

> "Ilika's high-throughput techniques are essential to overcome some of the technological barriers we face in the development of leading edge technologies."
>
> Mr Okajima, Project Manager at Toyota's Frontier & Advanced Engineering Strategy Dept

IP commercialisation

In 2012 Ilika secured a £4.6 million placing to commercialise the jointly-held IP in solid-state batteries. Since then, Ilika has made strong progress with the selection and testing of optimum material combinations, the deposition of active electrochemical cell structures and testing of cell performance. Grant funding for the scale-up facility has been secured, creating a clear pathway for prototyping and technology transfer to a manufacturing partner.

Developing leading-edge technologies

Chairman's statement

Jack Boyer
Chairman

"As we move into the new financial year we are confident that we have firmly established a strong base to continue to grow the business. We have a strong IP portfolio and a number of joint development agreements with major partners that continue to make good progress."

These are our third set of full year results as a public company. During the year we have seen significant operational progress with our IP development programmes and this is outlined in the Chief Executive's review. We also experienced a number of challenges during the period, including delays with a number of potential contracts and the decision by Energizer to close one of its business units, which impacted on our development collaboration. This has been reflected in the reduced revenues for the Company and has, no doubt, had a significant impact on our share price.

Notwithstanding the above, we believe that the Company's strong relationships with existing development partners should mean that contracts which were delayed in 2013 will be converted or replaced in 2014. Furthermore, the Company generated a significant number of new leads with major companies during the period. This should allow us to continue to broaden our commercial pipeline, further diversify our global customer base and deliver significant financial growth over the coming years.

A compelling

Turnover percentage by geographical market: (%)

	2013	2012
Asia	**78**	86
Europe	**13**	1
US	**9**	13

Disposal of non-core wound care business
In December 2012 we disposed of our wound care operations allowing us to focus on our core activities of developing energy conversion and storage materials. This resulted in a reduction in overheads and the discontinued revenues in the 7 months to 30 December 2012 of £0.10 million (2012: £0.16 million) which are not included in the reported figures below. I would also like to thank Dr. Werner Braun, who has been a Director of Ilika since May 2007, for his contribution to the Company over the years. Dr. Braun, who has extensive experience in the medical device sector, has stepped down at the end of his fixed term in office following the disposal of Altrika.

Financial results
In line with the guidance provided in our statement from 16 April 2013, revenues from continuing operations for the year ended 30 April 2013 fell to £1.00 million (2012: £1.85 million), for the reasons explained above. Revenue in the year does not include any grant income (2012: £0.17 million) as the Carbon Trust funding was provided as a direct equity investment of £0.15 million rather than as a grant.

Gross profit reduced to £0.44 million (2012: £0.81 million) and with administrative expenses increasing to £4.0 million (2012: £3.4 million) as a result of increased research and development activities, and zero grant income (2012: £0.17 million), we recorded an increased loss before tax on continuing operations of £3.5 million (2012: £2.4 million), resulting in a loss per share of 0.07p (2012: Loss of 0.07p).

Cash
As at 30 April 2013, the Group's cash position was £1.9 million (2012: £5.3 million). Post period end, we raised an additional £709,000 through a share placing which, coupled with securing and commencing a number of contracts with customers presently being finalised will provide sufficient cash to fund our requirements for the foreseeable future. Additionally, this placing has improved our shareholder register with new investors whose investment horizons are better aligned with our long-term corporate objectives.

Outlook
Although last year's financial results did not meet market expectations, the new financial year has already seen the conversion of one of the delayed contracts and we hope to see other opportunities convert throughout the year. Whilst development work in Japan remains the largest contributor to revenues and we are encouraged by a strong pipeline of opportunities through our recently appointed business development director based in Frankfurt, Germany, as well as further opportunities in the US.

The development of our solid-state battery technology, co-developed with Toyota, for man-portable applications has progressed through the first phase of the programme in-line with our expectations and we have submitted a proposal to the US army for the funding of technology to full development and whilst this assessment process is ongoing we are also exploring additional commercial support for the technology in the consumer electronics and automotive sectors.

Finally I would like to thank the staff and Board for their hard work over the last year and their undoubted contribution to the growth of the business. I look forward to reporting on the developments of the Group over the coming year.

Jack Boyer
Chairman
12 July 2013

Operational highlights
- Grant of patents protecting core high throughput technology platform in US, Japan and Canada
- Progression of proprietary low-cost fuel cell catalyst development, including:
  - Investment of £150,000 by Carbon Trust to support commercialisation activities
  - Grant of patents in US and Japan
  - Delivery of kg-scale quantity for OEM trials
- Completion of initial phase of solid-state battery development, including:
  - Selection and testing of optimum material combinations
  - Deposition of active electrochemical cell structures
  - Testing of cell performance
- Streamlining operations through disposal of wound-care business and consolidation of activities to one base in Southampton
- Focusing business development activities and implementing operational cost reductions to yield renewed growth in the coming financial year.

Financial highlights
- Revenues down 46 percent to £1.00 million (2012: £1.85 million)
- Gross profit margin up to 44.1 percent (2012: 43.9 percent)
- Loss before tax increased £3.5 million (2012: £2.4 million)
- Loss per share unchanged at 0.07p (2012: 0.07p)
- Cash, cash equivalents and bank deposits of £1.9 million (as at 30 April 2012: £5.3 million)

enterprise

Chief Executive's review

Graeme Purdy
Chief Executive

"This year has been one in which Ilika's portfolio of technology and intellectual property has matured in a number of key markets around the globe."

Our strategy

The Company's business strategy is to use our HTT process to discover and commercialise novel materials for integration into products with high value end-markets.

Focusing on

This year has been one in which Ilika's portfolio of technology and intellectual property ('IP') has matured in a number of key markets around the globe. The company's IP can be divided into 2 broad categories: 1) its platform technology for high throughput materials development and 2) the IP defining the materials, which have been developed using that platform. At the start of our last financial year, in May 2012, the Company received confirmation that its patent applications covering its core PVD patents had been granted in the US, Canada and Japan. The PVD technology was originally developed at the University of Southampton prior to the spin out of the Company in 2004. This technology has underpinned much of the materials innovation which the Company has undertaken since its formation and still provides the means by which the majority of the new materials being developed are initially made. Hence, in securing granted patents for this technology, the Company has secured the foundations for continued future growth.

The Company considers its core technology in high-throughput techniques to be a key differentiator from other providers of materials innovation. Ilika monetises this core technology through the development of the materials developed using that platform. Hence, continued progress made in securing IP, which defines the materials generated using the platform, and commercialising those materials is important to the Company. This past year has seen important milestones achieved across the Company's portfolio, but particularly in the key area of energy storage and conversion.

The energy conversion materials, which are the most mature in Ilika's portfolio, include the low-cost fuel cell electrode materials. Reducing the cost of fuel cell technology is widely acknowledged as a key priority for enabling its adoption for both transport and stationary applications. Ilika's materials are suitable for use in so-called PEM fuel cells, which are of primary interest to transport applications. PEM fuel cell technology is also being used for stationary power applications, particularly for domestic power in Japan. 40 percent of the cost of a PEM fuel cell stack is currently associated with the use of platinum as the electrocatalyst. Platinum is a scarce precious metal and therefore its price is sensitive to supply and demand pressures. In 2012, the price of platinum varied between £28 and £35/g. At a typical loading of 11 g/kW, this means that an 80 kW fuel cell, which might be suitable for a small car, requires £2,500–£3,000 of platinum. In comparison, the total cost of buying an internal combustion engine lies in the range £500–£1,000. Ilika's electrocatalysts cost 1/3 of the price, on a $/kW basis, of platinum-based equivalents. In September 2012, Ilika received a ca. £150,000 equity investment from the Carbon Trust to allow Ilika to complete the commercialisation of this technology. Since then, Ilika's patents covering its technology have been granted in the US and Japan. In addition, Ilika's development partner, ITRI of Taiwan, has delivered the first 1 kg of the catalyst for testing, primarily with OEMs in US and Japan, where Ilika has strong patent coverage. Materials transfer agreements have been put in place and initial samples have been made available for confirmatory testing at the OEMs. Initial feedback is encouraging and further testing is expected in this financial year.

In April 2012 Ilika announced that it had completed an equity round to fund the co-development of its solid-state battery technology, which it had co-developed with Toyota. Technical progress through Phase I of its development programme has been as expected, with optimisation of cell-based data continuing. An open channel of communication has been maintained with the US army, who expressed a strong interest in accessing this technology for man-portable applications. Ilika is also pursuing commercial support for the technology from the consumer electronics and automotive sector.

Developing leading-edge high-throughput development processes

Partnering with companies committed to developing and commercialising jointly developed products

Using high-throughput processes to invent patentable functional materials

delivery

Chief Executive's review continued

Toyota is actively supporting Ilika within the automotive sector by co-presenting in June 2013 at a technology summit, the Advanced Automotive Battery Conference in Strasbourg.

An important streamlining of the business was completed in the last financial year. In December 2012, Ilika's wholly-owned biomedical subsidiary, Altrika, was disposed of. The transaction involved the transfer of the cell-based burns treatment products Myskin® and Cryoskin® as well as the staff and facilities in Sheffield. The high-throughput polymer platform was retained and operations were consolidated in Southampton. The transaction had a net positive effect on Ilika's balance sheet and allowed Ilika to focus on its activities in the energy and electronics sector. At the end of his term as Non-Executive Director, Dr. Werner Braun, stepped down from Ilika's Board in June 2013. Dr. Braun has particular expertise in the marketing of medical devices through his executive role at Biotronik.

The split of Ilika's revenues across the globe continues to have an emphasis in Japan, with 78 percent coming from Japan, 9 percent from US and 13 percent from Europe. In 2012, deal timelines and conversion rates deteriorated, causing the drop in reported revenues initially flagged in Ilika's trading update in April 2013. Since then, the policy of quantitative easing pursued in Japan appears to have renewed corporate confidence, leading to an improved robustness in commercial outlook. Ilika's core customer base has continued to renew relationships, as demonstrated by the contract renewals announced in December 2012 and February 2013. Further renewals of these relationships are expected in 2013. The Company has expectations of growth of the contribution of revenues from both the USA and Europe. The front end of the emerging opportunities in Europe was shown by the announcement of a new customer in the field of battery materials optimisation in April 2013. The need for improved energy storage and conversion continues to be a strong business driver for Ilika, which fits well with the Company's core capabilities in being able to deliver optimised materials within accelerated timelines.

Graeme Purdy
Chief Executive
12th July 2013

A year of progress

May 2012

Patent protection of core technology platform in US

May 2012 – April 2013

Progression of low-cost fuel cell catalyst commercialisation

December 2012

Streamlining of operations

January 2013

Expansion of facilities

April 2013

Completion of initial phase of solid-state battery development

May 2013

Reinforcement and broadening of shareholder base

May 2013

Patent protection of core technology platform in Japan

Financial review

Stephen Boydell
Finance Director

"Revenue generated from European based customers increased to 13 percent from 1 percent in 2012."

Revenue from continuing activities for the year ended 30 April 2013 was £1.04 million (2012: £1.85 million). Discontinued revenues generated in the wound care business of Altrika in the seven months to December 2012 were £0.10 million (2012: £0.16 million). There was no grant income recognised in the period for continuing operations as the Carbon Trust supported the company's fuel cell catalyst programme by way of a direct equity investment of £0.15 million (2012: grant income £0.17 million).

Revenues relate to the payments made by Ilika's partners for research and development activities. Japan-based customers continue to fund the majority of the Group's projects, but the appointment of a German-based business development resource at the end of last financial year helped to increase the revenue generated from European based customers to 13 percent of the total from 1 percent in 2012.

Gross margin on customer funded programmes has remained at around 44 percent for the year. Administration expenses have increased from £3.37 million in 2012 to £4.02 million in 2013. An accounting adjustment for a share-based payment calculation is included within administration expenses. In 2012 there was a share-based payment charge of £0.2 million, whilst in 2013, because a number of options lapsed in the year, there was a credit of £0.25 million. The underlying increase in administration expenses in the year, after taking into account for this accounting adjustment, is therefore £1.1 million.

The vast majority of this increase relates to the company's increased research and development expenditure, primarily on its own funded solid-state battery project, but also on the grant body supported projects like the low-cost fuel cell catalyst material and the company's contribution to shared development programmes with customers. Total spend on research and development projects, including depreciation on assets attributable to these projects, was £2.4 million in 2013, up from £1.7 million in 2012. The balance of the administrative expenses increase relates to expanded business development activity and the one-off costs associated with the company's laboratory expansion to increase capacity and accommodate staff and equipment transferred from the Altrika business.

The increase in internally funded research and development activity, coupled with the support from the Carbon Trust by way of equity investment rather than by grant, has resulted in a significantly increased Research and Development tax credit up from £0.1 million in 2012 to £0.24 million in 2013.

Investment in facilities expansion in the year was £0.2 million and spend on laboratory and IT equipment was £0.4 million (2012: total spend on fixed assets £0.2 million). Fixed assets with a net book value of £20,000 were disposed of with the sale of the Altrika business.

The year end cash position was £1.9 million (2012: £5.3 million). With the group restructuring and investment in facilities now complete, this cash balance, together with the contracts currently being finalised and the post year end placing, is sufficient to fund the company's cash requirement for the foreseeable future.

Steve Boydell
Finance Director and Company Secretary
12 July 2013

Board of Directors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1 Jack Boyer
Chairman
Mr. Boyer joined Ilika as Chairman in 2004. He is also chairman of iQur Ltd and a non-executive director of FTSE 250 companies Mitie plc and Laird plc and chairs the Remuneration Committee of the latter. He previously founded and was the CEO of pan-European engineering group TCG, an Executive Director at Goldman Sachs and a management consultant at Bain & Co. Mr. Boyer was educated at Stanford University (B.A. Hons), the London School of Economics (M.Sc.) and INSEAD (MBA).

Mr. Boyer is a Council member of the Engineering and Physical Sciences Research Council, the Higher Education Funding Council for England's Research Excellence Framework main panel for physical sciences and deputy Chairman of Godolphin & Latymer School in London.

2 Graeme Purdy
Chief Executive
Graeme was appointed to head-up the Company from the beginning of May 2004, just before completion of the Company's seed round of funding. He led the Company through 2 successful rounds of venture funding before floating the Company on AIM in 2010.

Prior to joining Ilika, Graeme was Chief Operating Officer of a high-technology company in the Netherlands and before that worked internationally in a variety of technical and commercial roles for Shell. Graeme holds a master's degree in Chemical Engineering from Cambridge and an MBA from INSEAD business school in France. Graeme is a Chartered Engineer and a Sainsbury Management Fellow.

3 Prof. Brian Hayden
Chief Scientific Officer
Brian is currently on secondment to Ilika from the University of Southampton, where he is Professor of Physical Chemistry. He is a pioneer of surface science and has a strong track record in running successful industrial collaborations.

Brian has published in excess of 100 papers in the fields of surface science, surface electrochemistry and fundamental aspects of heterogeneous catalysis and electrocatalysis. He is a Fellow of the Royal Society of Chemistry and regular speaker at conferences.

4 Stephen Boydell
Finance Director
Having qualified with Deloittes in 1996, Stephen held a number of acquisition, treasury and group reporting roles at both Hays plc and then AGI Media before becoming Finance Director of Healthy Direct, a successful Guernsey-based group of companies. He was instrumental in the restructuring of that group and its subsequent trade sale to a competitor. He joined Ilika in 2009 as Finance Director and Company Secretary.

Stephen studied Economics at Nottingham University and is a Fellow of the Institute of Chartered Accountants.

5 Dr. Werner Braun
Non-Executive Director
Having received a PhD in plasma and laser physics from the Technical University in Munich for research work performed at the Max Planck Institute for Plasma Physics, Dr. Braun initially worked for Messer Griesheim before joining Biotronik as VP of Marketing and Sales.

Over a period of 14 years, Dr. Braun played a key role in growing Biotronik from an early stage company to a global provider of medical devices for use in cardiology and cardiosurgery.

Following spells as General Manager of Chiron Adatomed and VP of Marketing and Sales for Medtronic Europe, Middle East and Africa, Dr. Braun returned to Biotronik in 2001 to become Managing Director, further developing the Company's market expansion to become Europe's largest privately-held medical device company in the cardiovascular arena. On 30 June 2013, Dr. Braun stepped down at the end of his fixed term of office.

6 Clare Spottiswoode CBE
Non-Executive Director
Ms. Spottiswoode's career started as an economist with the Treasury before establishing her own software company. She is perhaps best known as Director General of Ofgas where she oversaw the transformation of the gas industry from a monopoly into a deregulated, competitive industry. In November 2006 she was appointed as the Policyholder Advocate for Aviva, responsible for ensuring that around 1 million withprofits policyholders received a fair share of the £5–£6 billion inherited estate. Policyholders received more than double the only previous reattribution settlement.

Ms. Spottiswoode currently chairs Gas Strategies Limited and Flowgroup and is a Non-Executive Director of G4S, the Payments Council and Enquest Oil. Awarded a CBE for services to industry in 1999, she holds degrees from Cambridge and Yale Universities and an honorary doctorate from Brunel.

7 Prof. Sir William Wakeham
Non-Executive Director
Prof. Sir William Wakeham retired as Vice-Chancellor of the University of Southampton in September 2009. He studied Physics at Exeter University at both undergraduate and doctoral level. In 1971 he took up a lectureship in the Chemical Engineering Department at Imperial College London becoming Head of Department in 1988. By 1999 he was Pro-Rector (Research), Deputy Rector and Pro-Rector (Resources) at Imperial College. He oversaw the College's merger with a series of medical schools and stimulated its entrepreneurial activities. A Fellow, Senior Vice-President and International Secretary of the Royal Academy of Engineering, a Fellow of the Institution of Chemical Engineers, the Institution of Engineering and Technology, the Institute of Physics and the Portuguese Academy of Engineering. He holds honorary degrees from Universidade Nova Lisboa and the Universities of Lisbon, Exeter, Southampton, Southampton Solent, Loughborough and Portsmouth. He is a Fellow of Imperial College London and was knighted in 2009 for services to Chemical Engineering and Higher Education.

Directors' report

Graeme Purdy
Chief Executive

"The principal activity of Ilika and the Group is the discovery and development of novel materials for mass market applications."

The Directors present their report and the audited financial statements for Ilika plc ('Ilika') and its subsidiaries ('the Group') for the year ended 30 April 2013.

Principal activities

The principal activity of Ilika and the Group is the discovery and development of novel materials for mass market applications.

Business review

A detailed review of the business, its results and future direction, together with the key performance indicators of turnover by geographical market, is included in the Chairman's and Chief Executive's review.

Directors

The Directors who served on the Board of Ilika during the year and to the date of this report were as follows:

Executive

Mr. S. Boydell (Financial Director and Company Secretary)
Prof. B. E. Hayden (Chief Scientific Officer)
Mr. G. Purdy (Chief Executive)

Non-Executive

Mr. J. B. Boyer (Chairman)
Dr. W. Braun – resigned 30 June 2013
Ms. C. Spottiswoode CBE
Prof. Sir W. Wakeham

Details of the Directors' remuneration and share options are shown in note 5 of these accounts.

The Group maintained Directors' and officers' liability insurance cover throughout the period.

Principal risks and uncertainties

Commercial risk

The Group is subject to competition from competitors who may develop more advanced and less expensive alternative technology platforms, both for existing materials and for those materials currently under development. The Group is largely dependent on its partners to commercialise the end-products containing the Group's materials.

Financial risk

The Group is reliant on a small number of significant customers and partners. Termination of these agreements could have a material adverse affect on the Group's results or operations or financial condition. The Group expects to incur further operating losses as progress on development programmes continue. There can be no assurance that the Group will ever achieve significant revenues or profitability.

Intellectual property risk

The Group faces the risk that intellectual property rights necessary to exploit research and development efforts may not be adequately secured or defended. The Group's intellectual property may also become obsolete before the products and services can be fully commercialised.

Regulatory risk

The Group's materials and products are subject to various European and other legislative and regulatory requirements. Regulatory issues could lead to delays in development which take time and investment to resolve.

Post balance sheet events

On 22 May 2013, 100,000 Convertible Preference Shares were converted to Ordinary Shares and 2,375,000 Ordinary Shares were issued for a total consideration of £712,500 with total issue costs incurred of £3,500.

Supplier payment policy

It is the Group's policy to settle debts with its creditors on a timely basis, taking best advantage of the terms and conditions offered by each supplier. As at 30 April 2013, the number of creditor days outstanding for the Group was 16 days (2012: 27 days).

Financial instruments

The Group's principal financial instrument comprises cash and this is used to finance the Group's operations. The Group has various other financial instruments such as trade credit facilities that arise directly from its operations. The Group places deposits surplus to short-term working requirements with a range of reputable UK based banks and building societies. These balances are placed at fixed rates of deposit with maturities between 1 and 9 months. See note 18 for IFRS7 disclosure regarding financial instruments.

Results and dividends
The consolidated statement of comprehensive income for the year is set out on page 23. The Group's loss for the financial year after taxation was £3.5 million (2012: £2.7 million).

The Directors do not recommend the payment of a dividend.

Charitable and political donations
The Group made no charitable or political donations during the year (2012: Nil).

Research and development costs
In accordance with the policy outlined in note 1, the Group incurred research and development expenditure of £1,773,000 in the year (2012: £1,377,000). Commentary on the major activities is given in the Chairman's statement and Chief Executive's review.

Auditors
All the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to reappoint BDO LLP will be proposed at the next Annual General Meeting.

Substantial shareholdings
On 30 June 2013 the Company had been notified of the following holdings of more than 3 percent or more of the issued share capital of the Company.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market ('AIM').

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of 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.

Website publication
The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Graeme Purdy
Chief Executive
12 July 2013

Shareholder	No. of Ordinary Shares	% shareholding
IP Group	7,778,387	16.1
St Peter Port Capital	6,018,924	12.4
Henderson Global	5,000,000	10.3
Ruffer LLP	4,545,454	9.4
Mackin Holdings Inc	3,967,647	8.2
Southampton Asset Management	3,799,900	7.9
Charles Stanley Group plc	3,000,750	6.2
Legal and General	2,720,677	5.6
Artemis	2,640,741	5.5
Southern Fox	2,424,093	5.3
Wyvern	1,547,039	3.1

Corporate governance statement

Jack Boyer
Chairman

"The Board is accountable to the Company's shareholders for good corporate governance and it is the objective of the Board to attain a high standard of corporate governance."

The Board is accountable to the Company's shareholders for good corporate governance and it is the objective of the Board to attain a high standard of corporate governance. As an AIM listed company full compliance with the provisions of the UK Corporate Governance Code published in May 2010 ('the Code') is not a formal obligation. The Company has not sought to comply with the full provisions of the Code, however it has sought to adopt the provisions that are appropriate to its size and organisation and establish frameworks for the achievement of this objective. This statement sets out the corporate governance procedures that are in place.

Board of Directors

The Board of Directors ('the Board') consists of a Non-Executive Chairman, 3 Executive Directors and for the year to 30 April 2013, 3 Non-Executive Directors.

The responsibilities of the Non-Executive Chairman and the Chief Executive Officer are clearly divided. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring that the Non-Executive Directors are properly briefed on matters. Prior to each Board meeting, Directors are sent an agenda and Board papers for each agenda item to be discussed. Additional information is provided when requested by the Board or individual Directors.

The Chief Executive Officer has the responsibility for implementing the strategy of the Board and managing the day-to-day business activities of the Group through his chairmanship of the Executive Committee.

The Non-Executive Directors bring relevant experience from different backgrounds and receive a fixed fee for their services and reimbursement of reasonable expenses incurred in attending meetings.

The Board retains full and effective control of the Group. This includes responsibility for determining the Group's strategy and for approving budgets and business plans to fulfil this strategy. The full Board ordinarily meets bi-monthly.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that the applicable rules and regulations are complied with. All Directors have access to the advice and services of the Company Secretary, and independent professional advice, if required, at the Company's expense. Removal of the Company Secretary would be a matter for the Board.

Performance evaluation

The Board has a process for evaluation of its own performance which is carried out annually.

Board Committees

As appropriate, the Board has delegated certain responsibilities to Board Committees as follows:

i) Audit Committee

The Audit Committee currently comprises Clare Spottiswoode CBE (Chairman), Professor Sir William Wakeham and Jack Boyer.

The Committee monitors the integrity of the Group's financial statements and the effectiveness of the audit process. The Committee reviews accounting policies and material accounting judgements. The Committee also reviews, and reports on, reports from the Group's auditors relating to the Group's accounting controls. It makes recommendations to the Board on the appointment of auditors and the audit fee. It has unrestricted access to the Group's auditors. The Committee keeps under review the nature and extent of non-audit services provided by the external auditors in order to ensure that objectivity and independence are maintained.

ii) Remuneration Committee
Until 30 June 2013, the Remuneration Committee comprised Dr. Werner Braun (Chairman), Clare Spottiswoode CBE and Jack Boyer. With the departure of Dr. Werner Braun, Professor Sir William Wakeham has joined the Committee and Jack Boyer has become Chairman.

The Committee is responsible for making recommendations to the Board on remuneration policy for Executive Directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including any share options and other awards, is based on their own performance and that of the Group generally.

iii) Nomination Committee
Until 30 June 2013, the Nomination Committee comprised Jack Boyer (Chairman), Professor Sir William Wakeham and Dr. Werner Braun. Dr. Werner Braun has been replaced on the Committee by Clare Spottiswoode CBE.

It is responsible for providing a formal, rigorous and transparent procedure for the appointment of new Directors to the Board and reviewing the performance of the Board each year.

Attendance at Board meetings and committees

The Directors attended the following Board and committee meetings during the year:

Attendance	Board	Audit	Nomination	Remuneration
Mr. S. Boydell	7/7	–	–	–
Mr. J. B. Boyer	6/7	2/2	1/1	2/2
Dr. W. Braun	6/7	–	1/1	2/2
Prof. B. E. Hayden	7/7	–	–	–
Mr. G. Purdy	7/7	–	–	–
Ms. C. Spottiswoode	6/7	2/2	–	2/2
Prof. Sir W. Wakeham	6/7	2/2	1/1	–

Risk management and internal control

The Board is responsible for the systems of internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee reviews the effectiveness of these systems primarily by discussion with the external auditor and by considering the risks potentially affecting the Group.

The Group does not consider it necessary to have an internal audit function due to the small size of the administration function. Instead there is a detailed Director review and authorisation of transactions. The annual audit by the Group auditor, which tests a sample of transactions, did not highlight any significant system improvements in order to reduce risk.

The Group maintains appropriate insurance cover in respect of actions taken against the Executive Directors because of their roles, as well as against material loss or claims of the Group. The insured values and type of cover are comprehensively reviewed on a periodic basis.

Employment

The Board recognises its legal responsibility to ensure the well-being, safety and welfare of its employees and maintain a safe and healthy working environment for them and for its visitors. A health and safety report is reviewed at each Board meeting and policies and procedures are independently reviewed to ensure compliance with best practice.

By order of the Board

Jack Boyer
Chairman
12 July 2013

Corporate social responsibility

Graeme Purdy
Chief Executive

"We have formed an Outreach Department and have been working collaboratively with local schools and colleges."

Ilika continues to recognises the importance of approaching its responsibilities to corporate social responsibility ('CSR') in a co-ordinated and committed fashion and we aim to ensure our approach to creating business growth manages environmental and social issues whilst delivering value for the Company and continued benefit for society. This statement acknowledges our ambition to include CSR in all parts of our business.

Overall responsibility for developing and implementing our CSR policies on social, ethical and environmental matters and for reviewing their effectiveness lies ultimately with the Ilika Board. The Board regularly reviews the scope of the Company strategy and reports to stakeholders to ensure we remain focused on the material issues for the business.

Ilika's policies and procedures, which includes those related to CSR aspects are well researched, clearly thought out and communicated to all employees and those connected with our activities to ensure commitment and understanding throughout the Company.

The Main areas of CSR at Ilika are:

- Values and ethics
- Health and safety
- Employee rights
- Contribution to society
- Environment and sustainability

Values and ethics

Ilika supports the principles of the Universal Declaration of Human Rights through its business practices. This means that we support freedom from torture, unjustified imprisonment without fair trial and any other oppression. In addition, we support the right of any individual to have freedom of expression and religion, political representation or in respect of any other matter. Accordingly, we will not support or work with organisations which fail to uphold basic human rights within their influence, which are involved in the manufacture or transfer to an oppressive regime, or are involved in the manufacture of equipment used in the violation of human rights. We will not work with organisations which are involved in the funding or carrying out of terrorist activities or which do not conform to the most widely accepted standards for minimum labour rights or which do not cover the use of under-age or forced labour.

Health and safety

We recognise our responsibility to ensure the well-being, safety and welfare of our staff and to maintain a safe and healthy working environment for everyone who is affected by our activities. We understand that health and safety has positive benefits for the Company and that a commitment to a high level of safety makes good business sense. Health and safety is considered at the highest level in the Company with the ultimate responsibility resting with the Board.

Employee rights

We uphold the dignity of the individual by ensuring not only compliance with the laws relating to employment rights, equal opportunities and non-discrimination but by going further to ensure we provide a safe, supportive and dignified working environment.

Contribution to society
Ilika accepts and acknowledges that we have a corporate responsibility towards society not only by paying taxes and creating and maintaining jobs but also by using our unique research skills to develop knowledge, skills and products which will ultimately benefit society. We actively support and encourage the study of science at all levels from pre-GCSE through to doctorate level.

Environment and sustainability
Ilika continues to make a real and sustainable positive impact on the broader community by adopting environmentally responsible policies and operate in an environmentally conscious manner. Our objective is to minimise the impact of our business activity on the environment wherever possible.

Our ongoing objectives are to:

- Consider environmental issues in all of our decision making processes.
- Evaluate future energy usage to see how we can use low energy systems.
- Advise staff on the efficient use of energy and other utilities.
- Reduce travel on business where possible by the use of video and telephone conferencing.
- Use the most environmentally friendly mode of transport consistent with business needs.
- Encourage use of bicycles by offering our employees access to the HMRC Workcycle scheme.
- Reduce overall the resources we use.
- Reduce waste by recycling or finding other uses of by-products whenever viable.
- Reduce our letters and correspondence by using alternative electronic mechanisms.
- Use either recycled or FSC paper for all hard copy correspondence, wherever possible.
- Consider environmental criteria when choosing services and goods.
- Develop relationships with suppliers and contractors so that we all recognise our environmental responsibilities.
- Fundamentally Ilika will reduce its impact on the environment and ask that its employees, suppliers and customers do likewise.

Review
Highlights of the CSR work undertaken in the year include:

Environment: Energy usage has been fully reviewed in both our offices and laboratories and has led to new laboratory procedures which require tighter co-ordination of the use of equipment to ensure cost efficient use of our resources. Improved equipment usage scheduling has resulted in longer periods of shut down thereby reducing energy usage.

In our offices we have significantly reduced the amount of copying and printing undertaken and have set all copying equipment to default to double-sided, black and white copying.

Health and Safety: We have invested in equipment and training to improve working conditions and as a result of our ongoing efforts, there were no reportable injuries.

Values and ethics: We have requested our suppliers' CSR policies and statements to ensure that they are aligned with our core business principles to carry out business honestly, ethically and with respect for the rights and interests of others. We develop relationships with our suppliers to improve quality and efficiency and we settle our bills promptly.

Contribution to society: We have formed an Outreach Department and have been working collaboratively with local schools and colleges to create a one year programme of lectures, competitions and laboratory visits for children aged 16 years to 18 years. Our programme will proactively support and encourage the study and enjoyment of science in general and Chemistry in particular. In addition our Outreach department provides careers guidance for children wishing to enter into the world of science and we have provided 6 month and 12 month placements to Masters students.

Outlook
For the year ahead, we have ambitious plans to create a system whereby we can monitor and quantify our energy savings. We will continue to build upon our CSR efforts and look forward to a mutually rewarding year for our staff, the company and all those affected by our activities.

Independent auditor's report to the members of Ilika plc

We have audited the financial statements of Ilika plc for the year ended 30 April 2013 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the parent company balance sheet, the consolidated cash flow statement, the parent company cash flow statement, the consolidated statement of changes in equity, the parent company statement of changes in equity and the related notes. 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 the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

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

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

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 30 April 2013 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 have been properly prepared in accordance with IFRSs as adopted by the European Union and 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.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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.

Kim Hayward (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
12 July 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

	Notes	Year ended 30 April 2013 £	2012 £
Revenue	2	**1,003,943**	1,851,172
Cost of sales		**(561,584)**	(1,037,908)
Gross profit		**442,359**	813,264
Administrative expenses		**(4,020,375)**	(3,367,519)
Other operating income	6	**17,133**	172,097
Operating loss	4	**(3,560,883)**	(2,382,158)
Financial income	7	**67,437**	16,251
Financial expense	8	**(4,575)**	(10,684)
Loss before tax		**(3,498,021)**	(2,376,591)
Taxation	9	**239,741**	93,198
Loss for period on continuing activities		**(3,258,280)**	(2,283,393)
Loss for the period on discontinued activities	3	**(216,693)**	(426,892)
Loss for period/total comprehensive income attributable to owners of parent		**(3,474,973)**	(2,710,285)
Loss per share	10		
Basic		**(0.07)**	(0.07)
Diluted		**(0.07)**	(0.07)
Continuing operations		**(0.06)**	(0.06)
Discontinued operations		**(0.01)**	(0.01)

Consolidated balance sheet

Company number 7187804

	Notes	As at 30 April 2013 £	2012 £
ASSETS			
Non-current assets			
Intangible assets	11	**9,425**	61,863
Property, plant and equipment	12	**1,105,706**	1,380,257
Total non-current assets		**1,115,131**	1,442,120
Current assets			
Inventory	13	**–**	34,135
Trade and other receivables	14	**577,505**	660,943
Current tax receivable	9	**230,000**	125,470
Other financial assets – bank deposits	15	**1,455,092**	4,000,000
Cash and cash equivalents	16	**407,970**	1,299,072
Total current assets		**2,670,567**	6,119,620
Total assets		**3,785,698**	7,561,740
Issued capital and reserves attributable to owners of parent			
Issued share capital	19	**475,354**	472,638
Share premium		**8,823,770**	8,677,106
Capital restructuring reserve		**6,486,077**	6,486,077
Retained earnings		**(12,643,692)**	(8,916,868)
Total equity		**3,141,509**	6,718,953
LIABILITIES			
Current liabilities			
Trade and other payables	17	**644,189**	835,243
Non-current liabilities			
Other payables	17	**–**	7,544
Total liabilities		**644,189**	842,787
Total equity and liabilities		**3,785,698**	7,561,740

The notes on pages 27 to 48 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 12 July 2013.

Mr. J.B. Boyer
Chairman
12 July 2013

Consolidated cash flow statement

	Year ended 30 April 2013 £	2012 £
Cash flows from operating activities		
Loss before taxation continuing operations	**(3,498,021)**	(2,376,591)
Loss before taxation discontinued operations	**(216,693)**	(459,164)
Adjustments for:		
Amortisation	**52,438**	14,196
Depreciation	**803,345**	819,101
Equity settled share-based payments	**(251,851)**	211,613
Loss on disposal of plant, property and equipment	**155**	69
Loss on disposal of intangible assets	**–**	3,852
Net financial income	**(62,862)**	(5,567)
Operating cash flow before changes in working capital, interest and taxes	**(3,173,489)**	(1,792,491)
Decrease in trade and other receivables	**74,734**	87,318
Decrease in inventory	**34,135**	–
Decrease in trade and other payables	**(175,966)**	(272,198)
Cash utilised by operations	**(3,240,586)**	(1,977,551)
Tax received	**124,905**	122,733
Net cash flow from operating activities	**(3,115,681)**	(1,854,818)
Cash flows from investing activities		
Interest received	**59,055**	16,251
Purchase of intangible assets	**–**	(14,265)
Sale of discontinued operations	**50,000**	–
Sale of property plant and equipment	**–**	25
Purchase of property, plant and equipment	**(551,591)**	(196,826)
Decrease/(increase) in other financial assets	**2,544,908**	(2,500,000)
Net cash used in investing activities	**2,102,372**	(2,694,815)
Cash flows from financing activities		
Proceeds from issuance of Ordinary Share capital	**149,380**	4,899,991
Share issue costs	**–**	(303,703)
Capital element of finance leases	**(22,633)**	(40,823)
Interest element of finance leases	**(4,540)**	(10,684)
Net cash from financing activities	**122,207**	4,544,781
Net (decrease)/increase in cash and cash equivalents	**(891,102)**	(4,852)
Cash and cash equivalents at the start of the period	**1,299,072**	1,303,924
Cash and cash equivalents at the end of the period	**407,970**	1,299,072

Consolidated statement of changes in equity

	Share capital £	Share premium account £	Capital restructuring reserve £	Retained earnings £	Total attributable to equity holders of parent £
As at 30 April 2011	383,548	4,169,909	6,486,077	(6,418,196)	4,621,338
Share-based payment	–	–	–	211,613	211,613
Issue of shares	89,090	4,810,900	–	–	4,899,990
Expenses of share issue	–	(303,703)	–	–	(303,703)
Loss and total comprehensive income	–	–	–	(2,710,285)	(2,710,285)
As at 30 April 2012	472,638	8,677,106	6,486,077	(8,916,868)	6,718,953
Share-based payment	**–**	**–**	**–**	**(251,851)**	**(251,851)**
Issue of shares	**2,716**	**146,664**	**–**	**–**	**149,380**
Loss and total comprehensive income	**–**	**–**	**–**	**(3,474,973)**	**(3,474,973)**
As at 30 April 2013	**475,354**	**8,823,770**	**6,486,077**	**(12,643,692)**	**3,141,509**

Share capital
The share capital represents the nominal value of the equity shares in issue.

Share premium account
When shares are issued, any premium paid above the nominal value is credited to the share premium reserve.

Capital restructuring reserve
The capital restructuring reserve arises on the accounting for the share-for-share exchange. It represents the difference between the value of the issued equity instruments of Ilika Technologies Limited immediately before the share-for-share exchange and the equity instruments of Ilika plc along with the shares issued to effect the share-for-share exchange.

Retained earnings
The retained earnings reserve records the accumulated profits and losses of the Group since inception of the business.

Notes to the consolidated financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared on the basis of the accounting policies which apply for the financial year to 30 April 2013 and in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRSs') adopted by the European Union.

The individual financial statements of Ilika plc are shown on page 44 to 48.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to the reporting date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The financial statements are prepared on a going concern basis which the Directors believe continues to be appropriate. The Group meets its day to day working capital requirements through existing cash resources which, at 30 April 2013, amounted to £1,863,062. The Directors have prepared projected cash flow information for the period ending 12 months from the date of their approval of these financial statements. On the basis of this cash flow information the Directors believe that the Group will be able to continue to trade for the foreseeable future.

(a) New standards, amendments to standards or interpretations adopted early

In the current year, there were no new or revised standards or interpretations that have been adopted and affected the amounts reported in the financial statements.

(b) New standards, amendments to standards or interpretations not yet applied

The following standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Group's future financial statements:

International Accounting Standards (IAS/IFRS)		Effective date for periods commencing
IFRS 7	Disclosures – Transfers of Financial Assets (amendments)	1 January 2013
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 1	Presentation of Items of Other Comprehensive Income (amendments)	1 July 2012
IAS 19	Employee Benefits	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2014

No other new standards or amendments are expected to have an effect on the Group.

Revenue comprises the fair value for the sale of goods and services, net of value added tax and is recognised as follows:

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information.

Notes to the consolidated financial statements continued

1 Accounting policies continued

Revenue

Sales of goods

Sales of equipment and skin based products are recognised when products are delivered to a customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services

Sales of research and development services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Leases

Where a Group company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as property, plant and equipment and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the consolidated income statement, and the capital element which reduces the outstanding obligation for future instalments. All other leases are accounted for as 'operating leases' and the rental charges are charged to the consolidated income statement on a straight line basis over the life of the lease.

Financial income and financial expense

Financial income and financial expense is recognised in the income statement as it accrues, using the effective interest method.

Pension and other post retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Share-based payment transactions

The Group issues equity-settled share-based payments to all employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of market-based and non-market based vesting conditions.

The fair value of market-based options granted by the Group is measured by use of the stochastic valuation model taking into account the following inputs: the exercise price of the option; the life of the option; the market price on the date of grant of the option; the expected volatility of the share price; the dividends expected on the shares; and the risk free interest rate for the life of the option.

The fair value of non market-based options granted by the Group is measured by use of the Black-Scholes pricing model taking into account the following inputs: the exercise price of the option; the life of the option; the market price on the date of grant of the option; the expected volatility of the share price; the dividends expected on the shares; and the risk free interest rate for the life of the option. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Research and development expenditure

Expenditure on the research phase is charged to the income statement in the period in which it is incurred. Development expenditure on new products is capitalised only once the criteria specified under IAS 38, Intangible Assets, have been met. Prior to and during the year ended 30 April 2013, no development expenditure satisfied the necessary conditions of IAS 38.

Taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

1 Accounting policies continued

Foreign currency
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.
Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the profit and loss statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Leasehold improvements	lease term
Plant, machinery and equipment	3–5 years
Fixtures and fittings	3–5 years

Inventory
Inventory comprised the Group's cell bank from which the Cryoskin® product is derived. Inventory was valued at the lower of cost and net realisable value. Consumable stock items have been written off as an expense in the year incurred.

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

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Intangible assets
Computer software
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised to administrative expenses using the straight line method over their estimated useful lives (1–3 years).

Intellectual property
Acquired intellectual property is included at cost and is amortised to administrative expenses on a straight-line basis over its useful economic life of 15 years.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group's financial assets are all classified as loans and receivables and carried at amortised cost. The Group's financial liabilities are all classified as 'other' liabilities which are carried at amortised cost. Cash and cash equivalents comprise cash balances and call deposits.

Government grants
Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grant revenue is disclosed within other operating income. £16,899 was received in government grants in the year (2012: £293,297)

Cash and cash equivalents
Cash and cash equivalents include cash in hand and deposits held on call with the bank.

Notes to the consolidated financial statements continued

1 Accounting policies continued

Key sources of estimation uncertainty

The preparation of the Group's financial statements, in accordance with IAS 1, Presentation of Financial Statements, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Group's financial statements. The Group's estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

- **Revenue recognition**

The Group's revenue substantially comprised revenues from the provision of research and development services. The contacts set out defined deliverables the achievement of which trigger milestone payments. Judgement is used to determine the stage of completion and the point at which revenue is recognised.

- **Share-based payments**

The critical accounting estimates, assumptions and judgements underpinning the valuation of the option awards are disclosed in note 23.

- **Taxation**

The current tax receivable is the expected tax receivable on the expenditure for the period using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. The ultimate receivable may vary from the amounts provided and is dependent upon negotiations with the relevant tax authorities.

2 Segment reporting

IFRS 8 requires the Group to report on operating segments on the same basis as that used by the chief operating decision maker to assess the performance of the business segments and to allocate resources accordingly. For management purposes, the Group is analysed by the geographical location of its customer base and business development directors have been appointed to cover the Group's three territories of focus, Asia, North America and Europe. Previously, segmentation analysis was provided by the market categories, Energy, Electronics and Biomedical. The disposal of the Altrika wound care business and the subsequent reorganisation meant that this segmentation basis was no longer appropriate.

The Group's activities originate from the production, design and development of high throughput methods of material synthesis, characterisation and screening. The Group has materials development programmes for a wide range of applications including in the battery, fuel cell, hydrogen storage sectors as well as in capacitors, ferroelectrics, piezoelectrics and memory materials.

Turnover	Year ended 30 April 2013 £	 2012 £
Analysis by geographical market:		
By destination		
Asia	**785,989**	1,581,200
Europe	**131,617**	22,452
North America	**86,337**	247,520
Continuing operations total	**1,003,943**	1,851,172
Discontinued operations – By destination – Europe	**97,475**	160,072
	1,101,418	2,011,244

A number of customers individually account for more than 10 percent of the total turnover of the Group. The revenues from these companies are indicated below on a segment basis:

Turnover	Year ended 30 April 2013 £	 2012 £
Customer 1	**654,918**	781,283
Customer 2	**–**	385,556
Customers less than 10%	**446,500**	844,405
	1,101,418	2,011,244

2 Segment reporting continued

The chief operating decision maker only reviews turnover by operating segment then reviews expenses and profit on an aggregate basis. Therefore the segmental loss before tax information, along with the segmental total assets and liabilities information has not been split out in this note.

The loss before tax per the management accounts is the same as the loss before tax on the consolidated statement of comprehensive income with the exception of the share-based payment expense which is only calculated as a year end adjustment. For details of the calculation see note 23. The total assets and liabilities per the management accounts are the same as the consolidated balance sheet with the exception of the period end tax adjustment.

3 Discontinued operations

The results of the discontinued wound care division which have been included in the consolidated income statement were as follows:

	Year ended 30 April	
	2013 £	2012 £
Revenue	**97,475**	160,072
Cost of sales	**(97,248)**	(149,861)
Gross profit	**227**	10,211
Administrative expenses	**(233,819)**	(590,531)
Other operating income	**16,899**	121,156
Operating loss and loss before tax	**(216,693)**	(459,164)
Taxation	**–**	32,272
Loss for period on discontinued activities	**(216,693)**	(426,892)

The net book value of assets sold along with the Altrika business equated to £73,000. Proceeds of disposal were £90,000 (£50,000 on disposal and deferred consideration of £40,000) less legal costs of £17,000.

4 Operating loss

	Year ended 30 April	
This is arrived at after charging:	**2013 £**	2012 £
Research and development expenditure in the year	**1,772,605**	1,377,449
Depreciation	**803,345**	819,101
Amortisation of intangible assets	**52,438**	14,196
Auditors remuneration:		
Fees payable to the Group's auditor for the audit of the Group's accounts	**15,000**	15,000
Fees payable to the Group's auditor for other services:		
– The Audit of the Group's subsidiaries	**6,800**	8,625
– Other assurance services – interim review	**10,750**	10,500
– Tax services	**–**	6,700
Operating lease rentals	**234,836**	180,714
Share-based payment charge	**(251,851)**	211,613
Foreign exchange differences	**(2,464)**	1,213

Notes to the consolidated financial statements continued

5 Employees

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

	Year ended 30 April	
	2013 Number	2012 Number
Administration	**9**	9
Materials synthesis	**30**	27
	39	36

Staff costs for all employees, including Executive Directors, consist of:

	Year ended 30 April	
	2013 £	2012 £
Wages and salaries	**1,716,057**	1,587,516
Social security costs	**163,602**	160,319
Share-based payment expense	**(252,939)**	204,681
Pension costs	**112,373**	111,215
	1,739,093	2,063,731

The Directors' costs consist of:

	Basic salary £	Fees £	Benefits in kind £	Total short-term benefits £	Pension £	Total £
Year to 30 April 2013						
G. Purdy	**151,067**	**–**	**367**	**151,434**	**27,487**	**178,921**
S. Boydell	**98,950**	**–**	**241**	**99,191**	**16,137**	**115,328**
B. Hayden	**50,333**	**–**	**–**	**50,333**	**–**	**50,333**
J. Boyer	**60,400**	**–**	**–**	**60,400**	**–**	**60,400**
W. Braun	**–**	**30,200**	**–**	**30,200**	**–**	**30,200**
W. Wakeham	**30,200**	**–**	**–**	**30,200**	**–**	**30,200**
C. Spottiswoode	**30,200**	**–**	**–**	**30,200**	**–**	**30,200**
	421,150	**30,200**	**608**	**451,958**	**43,624**	**495,582**
Year to 30 April 2012						
G. Purdy	150,000	–	413	150,413	29,312	179,725
S. Boydell	90,000	–	271	90,271	24,901	115,172
B. Hayden	50,000	–	–	50,000	–	50,000
J. Boyer	60,000	–	–	60,000	–	60,000
W. Braun	–	30,000	–	30,000	–	30,000
W. Wakeham	30,000	–	–	30,000	–	30,000
C. Spottiswoode	30,000	–	–	30,000	–	30,000
	410,000	30,000	684	440,684	54,213	494,897

Share-based payment credit attributable to Directors in the year was £252,939 (2012: expense of £195,281).

Benefits in kind include critical illness cover.

5 Employees continued

The unapproved share options of the Directors under the 'Ilika plc Executive Share Option Scheme 2010' are set out below:

	2013 Number	2012 Number
G. Purdy	**1,050,000**	1,800,000
J. Boyer	**1,050,000**	1,800,000
B. Hayden	**525,000**	900,000
S. Boydell	**117,600**	205,200
W. Braun	**65,100**	115,200
W. Wakeham	**65,100**	115,200
C. Spottiswoode	**50,100**	100,200

The approved share options of the Directors in Ilika plc exchanged from share options in Ilika Technologies Limited. For further details see note 23.

	2013 Number	2012 Number
G. Purdy	**760,700**	760,700
S. Boydell	**90,000**	90,000

	2013 Number	2012 Number
G. Purdy	**136,200**	136,200
J. Boyer	**540,200**	540,200
W. Braun	**20,000**	20,000
B. Hayden	**59,300**	59,300

2,112,900 options have lapsed in the period (2012: Nil).

6 Other operating income

	Year ended 30 April	
	2013 £	2012 £
Grant income	**–**	172,140
Sundry other income	**17,133**	(43)
	17,133	172,097

7 Financial income

	Year ended 30 April	
	2013 £	2012 £
Income from short-term deposits	**67,437**	16,251

8 Financial expense

	Year ended 30 April	
	2013 £	2012 £
Interest on:		
Finance leases	**4,575**	10,684

Notes to the consolidated financial statements continued

9 Taxation

(a) Tax on profit from ordinary activities

There is no taxation charge due to the losses incurred by the Group during the year. The taxation credit represents research and development tax credit claims as follows:

	Year ended 30 April	
	2013 **£**	2012 £
Current tax on loss for the year	**230,000**	125,470
Adjustments to prior period	**9,741**	–
	239,741	125,470

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is different to the standard rate of corporation tax in the UK of 24 percent (2012: 26 percent). The differences are reconciled below:

	2013 **£**	2012 £
Loss on ordinary activities before tax	**(3,714,714)**	(2,835,755)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 24% (2012: 26%)	**(891,531)**	(737,296)
Effects of:		
Expenses not deductible for corporation tax	**89,901**	25,922
Research and development relief	**(30,824)**	(51,566)
Origination of unrecognised tax losses	**662,899**	579,818
Share options	**(60,445)**	57,652
Under provision in previous years	**(9,741)**	–
Total tax credit for the year	**(239,741)**	(125,470)

Unrecognised deferred taxation

There are tax losses available for carry forward against future trading profits of approximately £11,415,000 (2012: £9,953,000). A deferred tax asset in respect of these losses of approximately £2,740,000 (2012: £2,389,000) has not been recognised in the accounts, as the full utilisation of these losses in the foreseeable future is uncertain.

10 Loss per share

Earnings per Ordinary Share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue and the earnings, being profit after tax, are as follows:

	Year ended 30 April	
	2013	2012
Weighted average number of equity shares	**47,431,258**	38,525,718
	£	£
Earnings, being profit after tax	**(3,474,973)**	(2,710,285)
	£	£
Loss per share	**(0.07)**	(0.07)
Continuing operations	**(0.06)**	(0.06)
Discontinued operations	**(0.01)**	(0.01)

The loss attributable to Ordinary Shareholders and weighted average number of Ordinary Shares for the purpose of calculating the diluted earnings per Ordinary Share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per Ordinary Share and is therefore not dilutive under the terms of IAS 33. At 30 April 2013 there were 16,145,039 options outstanding (2012: 18,514,186 options outstanding) as detailed in notes 19 and 23.

11 Intangible assets

	Software licences £	Intellectual property £	Total £
Cost			
As at 30 April 2011	22,360	75,000	97,360
Additions	14,265	–	14,265
Disposals	(8,707)	–	(8,707)
As at 30 April 2012	27,918	75,000	102,918
Disposals	–	–	–
As at 30 April 2013	**27,918**	**75,000**	**102,918**
Amortisation			
As at 30 April 2011	11,816	23,750	35,566
Provided for the year	9,196	5,000	14,196
Disposals	(8,707)	–	(8,707)
As at 30 April 2012	12,305	28,750	41,055
Provided for the year	6,188	46,250	52,438
As at 30 April 2013	**18,493**	**75,000**	**93,493**
Net book value			
As at 30 April 2011	10,544	51,250	61,794
As at 30 April 2012	15,613	46,250	61,863
As at 30 April 2013	**9,425**	**–**	**9,425**

The amortisation charge of £52,438 (2012: £14,196) is included within administrative expenses.

12 Property, plant and equipment

	Leasehold improvements £	Plant, machinery and equipment £	Fixtures and fittings £	Total £
Cost				
As at 30 April 2011	387,899	3,749,185	166,137	4,303,221
Additions	33,443	156,749	6,634	196,826
Disposals	–	(17,112)	–	(17,112)
As at 30 April 2012	421,342	3,888,822	172,771	4,482,935
Additions	190,273	342,331	18,987	551,591
Disposals	(59,557)	(98,856)	(22,046)	(180,459)
As at 30 April 2013	**552,058**	**4,132,297**	**169,712**	**4,854,067**
Depreciation				
As at 30 April 2011	373,533	1,792,418	130,791	2,296,742
Provided for the year	19,226	770,857	29,018	819,101
Disposals	–	(13,165)	–	(13,165)
As at 30 April 2012	392,759	2,550,110	159,809	3,102,678
Provided for the year	51,059	743,025	9,262	803,345
Disposals	(49,716)	(80,207)	(27,740)	(157,662)
As at 30 April 2013	**394,102**	**3,212,928**	**141,331**	**3,748,361**
Net book value				
As at 30 April 2011	14,366	1,956,767	35,346	2,006,479
As at 30 April 2012	28,583	1,338,712	12,962	1,380,257
As at 30 April 2013	**157,956**	**919,369**	**28,381**	**1,105,706**

The net book value of plant, machinery and equipment includes an amount of £31,114 (2012: £44,650) in respect of assets held under finance lease contracts.

There are no commitments for capital expenditure contracted but not provided for (2012: £Nil)

Notes to the consolidated financial statements continued

13 Inventory

	As at 30 April	
	2013 £	2012 £
Inventory	**–**	34,135

Inventory comprised the Group's cell bank from which the Cryoskin® product was derived.

14 Trade and other receivables

	As at 30 April	
	2013 £	2012 £
Trade receivables	**79,049**	24,376
Prepayments and accrued income	**289,066**	450,964
Other receivables	**209,390**	185,603
	577,505	660,943

15 Other financial assets – bank deposits

	As at 30 April	
	2013 £	2012 £
Amounts receivable within one year:		
Sterling fixed rate deposits of greater than 3 months' maturity at inception	**1,455,092**	4,000,000

16 Cash and cash equivalents

	As at 30 April	
	2013 £	2012 £
Current bank accounts	**55,664**	389,086
Short-term deposits with less than 3 months' maturity	**352,306**	909,986
	407,970	1,299,072

17 Trade and other payables

Current

	As at 30 April	
	2013 **£**	2012 £
Trade payables	**214,372**	367,669
Other payables	**17,341**	15,223
Other taxes and social security costs	**40,997**	44,441
Lease purchase agreements	**7,544**	22,633
Accruals and deferred income	**363,935**	385,277
	644,189	835,243

Non-current

	As at 30 April	
	2013 **£**	2012 £
Lease purchase agreements	**–**	7,544

Lease purchase agreements

	As at 30 April	
	2013 **£**	2012 £
Amounts payable		
Within 1 year	**7,544**	22,633
In 1 year to 2 years	**–**	7,544
	7,544	30,177

Lease purchase agreements are secured on the related assets and carry interest at fixed rates. The total amount payable under leases as at 30 April 2013 was £9,058 (2012: £35,853)

Notes to the consolidated financial statements continued

18 Financial instruments

The Group's principal financial instruments comprise, lease financing arrangements, cash and short-term deposits as well as other various items arising from its operations such as trade receivables and trade payables which are shown in the table below. The main purpose of these instruments is to finance the Group's working capital requirements as well as funding its capital expenditure programmes. The Group does not enter into derivative transactions such as interest rate swaps or forward exchange contracts.

	As at 30 April	
	2013 £	2012 £
Financial Assets		
Loans and receivables		
Trade receivables	**79,049**	24,376
Accrued income	**78,977**	211,262
Other receivables	**284,390**	185,603
Current bank accounts	**55,664**	389,086
Bank deposits	**1,455,092**	4,000,000
Short-term deposits	**352,306**	909,986
Total loans and receivables	**2,305,478**	5,720,313
Financial Liabilities		
Other financial liabilities		
Trade payables	**214,372**	367,669
Other payables	**17,341**	15,223
Other taxes and social security costs	**40,997**	44,441
Lease purchase agreements	**7,544**	30,177
Accruals	**363,935**	252,760
Total other financial liabilities (see note 17)	**644,189**	710,270

The risks associated with these financial instruments are set out below.

Foreign currency risk

The Group buys goods and services in currencies other than Sterling. The Group's non-Sterling liabilities and cash flows can be affected by movements in exchange rates. These transactions are not significant and therefore no forward exchange contracts have been entered into. It is Group policy not to engage in any speculative trading in financial instruments. Any risk is mitigated by sales transactions being denominated in Sterling.

Credit risk

The Group's credit risk is attributable to its trade receivables and banking deposits. The Group places its deposits with reputable financial institutions to minimise credit risk. The maximum exposure to credit risk for each period is the amount disclosed above as total loans and receivables. For the periods above there were no trade receivables which were past due or impaired. Risk is further mitigated through the use of credit limits, but also through the nature of the customers, who, for the most part, are large multinationals. There is no bad debt provision.

Liquidity risk

The Group's policy is to maintain adequate cash resources to meet liabilities as they fall due. With the exception of its hire purchase liabilities, which are disclosed in note 17, all other Group payable balances fall due for payment within 1 year. Cash balances are placed on deposit for varying periods with reputable banking institutions to ensure there is limited risk of capital loss. The Group does not maintain an overdraft facility.

Interest rate risk

The main risk arising from the Group's financial instruments is interest rate risk. The Group placed deposits surplus to short-term working capital requirements with a variety of reputable UK-based banks and building societies. These balances are placed at floating rates of interest and deposits have maturities of 1 to 12 months. The Group's cash and short-term deposits are set out in note 16.

18 Financial instruments continued

Fixed-rate financial liabilities comprises of a finance lease which expires in August 2013. It has a weighted average interest rate of 13.4 percent The maturity profile is detailed in note 17. Floating-rate financial assets comprise cash on deposit and cash at bank. Short-term deposits are placed with banks for periods of up to 12 months and are categorised as floating-rate financial assets. Contracts in place at 30 April 2013 had a weighted average period to maturity of 75 days and a weighted average annualised rate of interest of 2.01 percent

Interest rate risk sensitivity analysis

It is estimated that a change in base rate to zero would have increased the Group's loss before taxation for the year to 30 April 2013 by approximately £15,000 (2012: £11,000).

It is estimated that an increase in base rate by 1 percent would decrease the Group's loss before taxation for the year to 30 April 2013 by approximately £30,000 (2012: £15,000)

There is no difference between the book and fair value of financial assets and liabilities.

Capital management

The primary aim of the Group's capital management is to safeguard the Group's ability to continue as a going concern, to support its businesses and maximise shareholder value. The Group monitors its capital structure and makes adjustments as and when it is deemed necessary and appropriate to do so using such methods as the issuing of new shares. At present, other than finance leases, all funding is raised by equity. See note 1 for the fundraising that occurred during the year.

19 Share capital

	As at 30 April	
	2013 £	2012 £
Authorised		
45,874,033 Ordinary Shares of £0.01 each (2012: 45,482,433)	**458,740**	454,824
1,781,400 Convertible Preference Shares of £0.01 each	**17,814**	17,814
Allotted, called up and fully paid		
45,874,033 Ordinary Shares of £0.01 each (2012: 45,482,433)	**458,740**	454,824
1,661,400 Convertible Preference Shares of £0.01 each	**16,614**	17,814
	475,354	472,638

Share Rights

The Ordinary Shares and Preference Shares rank *pari passu* in all respects other than:

- The profits which the Group may determine to distribute in respect of any financial period shall be distributed only among the holders of the Ordinary Shares. The Preference Shares shall not entitle the holders of them to any share in such distributions.
- On a return of capital or assets on a liquidation, reduction of capital or otherwise the surplus assets of the Group remaining after payment of its obligations shall be applied:
  – First, in paying to the holders of the Preference Shares the amount paid thereon, being the amount equal to the par value of the Preference Shares excluding any premium; and
  – Secondly, the balance of such surplus assets shall belong to and be distributed amongst the holders of the Ordinary Shares.

The Preference Share holders have the right, at any time, to convert the Preference Shares held to the same number of Ordinary Shares.

On 22 May 2012, 5 December 2012 and 22 May 2013, 60,000, 60,000 and 100,000 respectively, £0.01 Convertible Preference Shares were converted to £0.01 Ordinary Shares.

On 17 September 2012, 271,600 Ordinary Shares were issued for a total consideration of £149,380 and on 22 May 2013, 2,375,000 Ordinary Shares were issued for a total consideration of £712,500 and total issue costs incurred were £3,500.

19 Share capital continued

Share options and warrants

Employee related share options are disclosed in note 23. In addition to these, there were 107,300 non-employee share options over Ordinary Shares of £0.01 at the year end. The Company's brokers also have a warrant to subscribe to 130,100 Ordinary Shares of £0.01.

10,147,059 warrants to subscribe to Ordinary Shares of £0.01 were issued on 14 May 2010 to investors who subscribed to the placing as one warrant for each share subscribed and the Company's brokers were issued with a warrant to subscribe to 392,157 Ordinary Shares of £0.01.

Notes to the consolidated financial statements

20 Operating leases

The total future minimum rent payable under non-cancellable operating leases is as follows:

	As at 30 April	
	2013 **£**	2012 £
Property		
Within 1 year	**–**	–
In 1 to 2 years	**221,598**	51,749
In 2 to 5 years	**–**	370,613
	221,598	422,362

21 Pensions

The Group operates a defined contribution group personal pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £112,373 (2012: £111,215).

22 Related party transactions

The Directors consider that no one party controls the Group.

During the year ended 30 April 2013, the Company incurred costs of £226,724 (2012: £295,109) with the University of Southampton in connection with research and development activities. The University of Southampton is the controlling shareholder of Southampton Asset Management Limited, which has an interest in the Company. At 30 April 2013, the amount unpaid in respect of these costs was £2,066 (2012: £6,606).

The Company incurred fees from the University of Southampton in respect of Prof. B. Hayden, a Director of the Company. These amounts are included in the costs shown above.

23 Share-based payments expense and share options

Share-based payment expense

The Group has incentivised and motivated staff through the grant of share options under the Enterprise Management Incentive ('EMI') scheme and through unapproved share option schemes.

The Group has recognised an expense to the consolidated statement of comprehensive income representing the fair value of outstanding equity-settled share-based payment awards to employees. The fair values were charged to the consolidated statement of total comprehensive income over the relevant vesting periods adjusted to reflect actual and expected vesting levels.

The Group has calculated the fair market value of options which had market-based performance conditions at the time of grant, using the stochastic valuation model. Options with no market-based performance conditions at the time of grant, have been valued using the Black-Scholes model.

At a meeting of the Remuneration Committee on 13 July 2011, it was agreed that the market-based performance criteria applicable to the options which were granted in May 2010, be amended to reflect a series of Company specific financial and commercial milestones.

At 30 April 2013, the following options, whose fair values have been fully charged to the consolidated statement of total comprehensive income, were outstanding:

23 Share-based payments expense and share options continued

Approved share options:

Date of grant	Number of shares	Period of option	Exercise price per share
19 May 2004	375,000	10 years	£0.10
29 June 2004	219,700	10 years	£0.10
9 June 2005	139,500	10 years	£0.10
30 March 2006	15,200	10 years	£0.10
14 May 2007	156,100	10 years	£0.80
15 January 2008	50,400	10 years	£1.00
2 February 2009	128,000	10 years	£0.80
1 December 2009	90,000	10 years	£0.80

None of these options were exercised in the year.

Unapproved share options:

Date of grant	Number of shares	Period of option	Exercise price per share
29 June 2004	273,100	10 years	£0.10
1 December 2005	280,000	10 years	£0.10
8 May 2006	115,500	10 years	£0.10
11 July 2007	195,500	10 years	£0.80
30 August 2007	151,600	10 years	£0.10
11 November 2008	40,000	10 years	£2.4283

None of these options were exercised in the year.

Black-Scholes valuation

	Weighted average exercise price		Number	
	2013 £	2012 £	**2013**	2012
Outstanding:				
At start of the period	**0.3612**	0.3499	**2,414,470**	2,263,600
Lapsed in the period	**0.7500**	–	**(108,947)**	–
Granted during the period	**–**	0.5300	**–**	150,870
At the end of the period	**0.3436**	0.3612	**2,305,523**	2,414,470

The exercise price of options outstanding at the end of the period ranged between £0.10 and £2.4283 and their weighted average contractual life was 2.9 years (2012: 3.9 years). These share options are exercisable and must be exercised within 10 years from the date of grant.

The following information is relevant in the determination of the fair value of options granted under the equity-settled share-based remuneration schemes under the Black-Scholes method.

	Year to 30 April	
	2013	2012
Equity-settled:		
Weighted average share price at date of grant/£	**–**	0.53
Exercise Price/£	**–**	0.53
Weighted average contractual life/years	**–**	9.7
Expected volatility	**–**	10%
Expected dividend yield	**–**	0%
Risk free interest rate	**–**	0.5%

Notes to the consolidated financial statements continued

23 Share-based payments expense and share options continued

The volatility has been based on the average of the standard deviation of the daily historical share price of the Company since its listing on the Alternative Investment Market in May 2010. The prior period volatility was based on the annualised average of the standard deviation of the daily historical continuously compounded returns of the share price of three companies listed on AIM which had a broadly similar technology risk profile to the Group. The risk free rate was assumed to be the yield to maturity on a UK Gilt strip with the term to maturity equal to the expected life of the option.

Stochastic valuation

	Weighted average exercise price		Number	
	2013 £	2012 £	**2013**	2012
Outstanding:				
At start of the period	**0.51**	0.51	**5,327,100**	5,352,100
Lapsed during the period	**0.51**	0.51	**(2,264,200)**	(25,000)
At the end of the period	**0.51**	0.51	**3,062,900**	5,327,100

The exercise price of options outstanding at the end of the period was £0.51 (2012: £0.51) and their weighted average contractual life was 8 years (2012: 9 years).

Ilika plc Executive Share Option Scheme 2010

At 30 April 2013 the following share options were outstanding in respect of the Ilika plc Executive Share Option Scheme 2010:

Date of grant	Number of shares	Period of option	Exercise price per share
14 May 2010	50,000	10 years	£0.51
1 February 2012	115,923	10 years	£0.53

Members of staff in the Group have options in respect of Ordinary Shares in Ilika plc, which are conditional upon the achievement of a series of financial and commercial milestones.

Ilika plc unapproved share options

At 30 April 2013 the following share options were outstanding in respect of Ilika plc unapproved share options:

Date of grant	Number of shares	Period of option	Exercise price per share
14 May 2010	3,012,900	10 years	£0.51

Directors, Non-Executive Directors and founders of the Group were granted a total of 5,200,800 options in respect of Ordinary Shares in Ilika plc. These options vested in 4 tranches. The first Tranche of 825,000 options were granted on 14 May 2010 with no performance conditions attached. The remaining 3 Tranches of 1,458,600 options were conditional upon the achievement of a series of financial and commercial milestones. The second tranche of 1,458,000 vested in full, the third Tranche lapsed and half of the fourth Tranche vested.

2,187,900 options lapsed in the year, no options were exercised. There are 5,252,500 options which were capable of being exercised as at 30 April 2013.

The following information is relevant in the determination of the fair value of options granted under the equity-settled share-based remuneration schemes operated by the Group under the stochastic valuation model.

23 Share-based payments expense and share options continued

Expected Term. This is the most likely estimate of the period from grant until the exercise date. For these options, the assumption of an expected term of part way between vesting and lapse for each option/tranche.

Expected Volatility. The normal approach is to look at the historical volatility of the share price over the most recent period that is generally commensurate with the expected award term. However, this approach was not possible here given that the options were granted on the date of the Company's admission to AIM. In such cases, IFRS 2 allows the consideration of the historical volatility of other similar entities to determine a proxy for the Company's volatility. Similar entities, for the purpose of calculating volatility, have been chosen as the constituents of the Company's comparator Index. Volatility for each of these companies has been calculated over both 3 and 6 years resulting in median volatilities of 46.7 percent and 42.3 percent respectively. A proxy volatility of 45 percent (being midway between these two figures) has been used for valuing these options.

Expected Dividend Yield: as the Company does not pay, and is not currently expected to pay any dividends, the dividend yield has been set to zero.

Risk-free Rate: calculated based on UK Gilts with a term commensurate with the expected term.

	2013 £	2012 £
Share-based payment expense/(credit):		
Black-Scholes calculation	**9,375**	891
Stochastic valuation	**(261,226)**	210,722
	(251,851)	211,613

Company Balance sheet of Ilika plc

Company number 7187804

	Notes	As at 30 April 2013 £	2012 £
ASSETS			
Non-current assets			
Investments in subsidiary undertaking	25	**121,339**	121,339
Current assets			
Trade and other receivables	26	**9,237,447**	9,083,842
Total net assets		**9,358,786**	9,205,181
Equity			
Issued share capital	27	**475,354**	472,638
Share premium	27	**8,802,981**	8,656,317
Retained earnings	27	**13,062**	(14,345)
LIABILITIES		**9,291,397**	9,114,610
Current liabilities			
Trade and other payables		**67,389**	90,571
Total liabilities		**67,389**	90,571
Total equity and liabilities		**9,358,786**	9,205,181

The notes on pages 47 to 48 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 12 July 2013.

Mr. J.B. Boyer
Chairman
12 July 2013

Company cash flow statement

	Year ended 30 April	
	2013 **£**	2012 £
Cash flows from operating activities		
Profit/(loss) before tax	**279,258**	(184,948)
Adjustments for:		
Equity settled share-based payments	**(251,851)**	211,613
Operating cash flow before changes in working capital, interest and taxes	**27,407**	26,665
Decrease/(increase) in trade and other receivables	**(153,605)**	(4,705,325)
(Decrease)/increase in trade and other payables	**(23,182)**	82,372
Cash utilised by operations	**(149,380)**	(4,596,288)
Cash flows from financing activities		
Proceeds from issuance of Ordinary Share capital	**149,380**	4,899,991
Share issue costs	**–**	(303,703)
Net cash from financing activities	**149,380**	4,596,288
Net increase in cash and cash equivalents	**–**	–
Cash and cash equivalents at the start of the period	**–**	–
Cash and cash equivalents at the end of the period	**–**	–

Company statement of changes in equity

	Share capital £	Share premium account £	Retained earnings £	Total attributable to equity holders £
As at 30 April 2011	383,548	4,149,120	(41,011)	4,491,657
Issue of shares	89,091	4,810,900	–	4,899,991
Expenses of share issue	–	(303,703)	–	(303,703)
Share-based payment	–	–	211,613	211,613
Loss and total comprehensive income	–	–	(184,947)	(184,947)
As at 30 April 2012	472,639	8,656,317	(14,345)	9,114,611
Issue of shares	**2,715**	**146,664**	**–**	**149,379**
Share-based payment	**–**	**–**	**(251,851)**	**(251,851)**
Profit and total comprehensive income	**–**	**–**	**279,258**	**279,258**
As at 30 April 2013	**475,354**	**8,802,981**	**13,062**	**9,291,397**

Share capital
The share capital represents the nominal value of the equity shares in issue.

Share premium account
When shares are issued, any premium paid above the nominal value is credited to the share premium reserve.

Retained earnings
The retained earnings reserve records the accumulated profits and losses of the Company since inception of the business.

Notes to the Company financial statements

24 Accounting polices

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union.

No Directors' report has been presented and the Directors' responsibilities in respect of these financial statements are set out on page 17.

Taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Related party transactions

During the year the Company made recharges of costs to Ilika Technologies Limited of £578,288 (2012: £563,214) and to Altrika Limited of £Nil (2012: £119,441). In addition the funds raised from the fundraising were transferred to Ilika Technologies Limited. The balance outstanding at 30 April 2013 for Ilika Technologies limited was £9,227,579 (2012: £9,075,927) and for Altrika Limited was £Nil (2012: £Nil).

Share-based payments

The critical accounting estimates, assumptions and judgements underpinning the valuation of the option awards are disclosed in note 23.

Financial instruments

The accounting policy relating to financial instruments is disclosed in note 1.

Profit of the Parent Company

Profit in the year

No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006. The Company’s profit for the year was £279,258 (2012: £184,948).

Directors’ remuneration

The remuneration of the Directors is disclosed in note 5.

Auditors’ remuneration

Auditors’ remuneration is disclosed in note 4.

25 Investment in subsidiary undertaking

Investments in Group undertakings are stated at cost.

Ilika plc has a wholly-owned subsidiary, Ilika Technologies Limited. Ilika Technologies Limited (Incorporated in the UK) made a loss for the year of £5,109,602 (2012: £1,949,515) and had net liabilities as at 30 April 2013 of £6,028,679 (2012: £919,078).

Shares in Group undertakings (at cost)	**2013 £**	2012 £
At 1 May 2012 and 30 April 2013	**121,339**	121,339

Notes to the Company financial statements
continued

26 Trade and other receivables

	As at 30 April 2013 £	As at 30 April 2012 £
Prepayments	**5,983**	7,650
Other debtors	**4,016**	265
Amounts due from subsidiary undertakings	**9,227,448**	9,075,927
	9,237,447	9,083,842

27 Share capital

	As at 30 April 2013 £	As at 30 April 2012 £
Authorised		
45,874,033 Ordinary Shares of £0.01 each (2012: 45,482,433)	**458,740**	454,824
1,781,400 Convertible Preference Shares of £0.01 each	**17,814**	17,814
Allotted, called up and fully paid		
45,874,033 Ordinary Shares of £0.01 each (2012: 45,482,433)	**458,740**	454,824
1,661,400 Convertible Preference Shares of £0.01 each (2012: 1,781,400)	**16,614**	17,814
	475,354	472,638

Share Rights

The Ordinary Shares and Preference Shares rank *pari passu* in all respects other than:

- The profits which the Group may determine to distribute in respect of any financial period shall be distributed only among the holders of the Ordinary Shares. The Preference Shares shall not entitle the holders of them to any share in such distributions.
- On a return of capital or assets on a liquidation, reduction of capital or otherwise the surplus assets of the Group remaining after payment of its obligations shall be applied:
  – First, in paying to the holders of the Preference Shares the amount paid thereon, being the amount equal to the par value of the Preference Shares excluding any premium; and
  – Secondly, the balance of such surplus assets shall belong to and be distributed amongst the holders of the Ordinary Shares.

The Preference Shareholders have the right, at any time, to convert the Preference Shares held to the same number of Ordinary Shares.

On 22 May 2012, 5 December 2012 and 22 May 2013, 60,000, 60,000 and 100,000 respectively, £0.01 Convertible Preference Shares were converted to £0.01 Ordinary Shares.

On 17 September 2012, 271,600 Ordinary Shares were issued for a total consideration of £149,380 and on 22 May 2013, 2,375,000 Ordinary Shares were issued for a total consideration of £712,500 and total issue costs incurred were £3,500.

Corporate directory

Company number	7187804
Directors	
Executive	Graeme Purdy Stephen Boydell Brian Hayden
Non-Executive	Jack Boyer (Chairman) Clare Spottiswoode Prof. William Wakeham
Secretary	Stephen Boydell
Registered office	Kenneth Dibben House Enterprise Road University of Southampton Science Park Chilworth Southampton SO16 7NS
Website	www.ilika.com
Advisers	
Independent auditors	BDO LLP Arcadia House Maritime Walk Ocean Village Southampton SO14 3TL
Nominated adviser and broker	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT
Registrars	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS13 8AE
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