27 March 2016

Itaconix plc
Preliminary Results for the 12 month period to 31 December 2016

2016 Business Highlights

Strategic refocus:
During 2016 Itaconix plc (formerly Revolymer plc) ("Itaconix" or the "Company") undertook a major reorganisation to focus on its Specialty Chemicals business primarily in the high value market areas of Homecare, Personal Care and Industrial. Itaconix and its subsidiaries (the "Group") aim to be a leader in functional polymers that improve the safety, performance and sustainability of its customer's products.

Structural developments:
Key steps in this strategic transformation included the following:

- Acquisition of Itaconix Corporation – on 20 June 2016 the Group announced that it had unconditionally agreed to acquire Itaconix Corporation based in New Hampshire, USA, for an initial consideration of $7m (at the time approximately £4.9m) comprising $3m in cash and $4m in new shares, plus further deferred performance related consideration of up to $6m payable in new shares
- Refinancing - Itaconix raised £5.8m (before expenses) in two tranches in June and July 2016 through the placing of 15,680,222 new shares at 37 pence per share
- Divestment of Nicotine Gum Business – on 31 October 2016 the Group completed the divestment of its nicotine gum business to the Danish company Alkalon A/S ("Alkalon"), for a 15% equity holding in the combined new business, which may increase to 20% if additional specific contracts in Canada are secured within nine months of completion
- Corporate rebranding – after the period end, on 1 March 2017 it was announced that the Company had changed its name to Itaconix plc, marking the refocus of the business on specialty chemicals and away from nicotine gum
- Plant expansion – a $1m investment has been made to upgrade the Group's polyitaconate manufacturing facility in New Hampshire, quadrupling the previous capacity. After successful commissioning, the facility came on line in March 2017.

Business model:
Following these developments, the Group now has a portfolio of specialty products to supply to its customers in its key market segments of Personal Care, Homecare and Industrial. All of these segments are global in nature, consistently delivering high growth rates and attractive margins. There are significant benefits to a product based business versus a licence only model including greater customer intimacy, more control over execution timelines and greater margin potential.

Itaconix is an innovator, developing new products to meet customer needs. As well as having expertise in designing novel polymer products that can be protected with patents and know-how, the business has also developed application and formulation expertise that provides better insights into how polymers can be used to provide cost effective solutions for its customers.

Itaconix is engaged in building a high margin, capital efficient business. Except for its relatively low cost polyitaconate manufacturing facility, the business uses third party contract manufacturers for a number of its products.

Commercial Progress:
Itaconix continues to launch new products, gain commercial traction, generate revenue starts and conclude partnership deals:

- Launch of RevCare NE 100S – This new bio-based, high performance hair styling ingredient was launched at the Global In-Cosmetics show in April 2016
- The first commercial sale of Itaconix® CHT™ was made in September 2016 for use in a private label automatic dish wash formula, with further sales awaited
- Croda – On 23 January 2017, Itaconix announced that it had signed an exclusive global supply and joint marketing agreement with Croda Inc. ("Croda") in respect of its polymer-based odour removal additive Itaconix® ZINADOR™ 22L ("ZINADOR"). Itaconix will produce ZINADOR for Croda and Croda will market and sell ZINADOR in household, municipal, animal and industrial applications. This was followed in March 2017 by the first major purchase order from Croda for ZINADOR

- AkzoNobel - On 27 January 2017, Itaconix announced that it had signed a joint development agreement with AkzoNobel Chemicals International B.V. ("AkzoNobel") to advance commercial collaborations in certain applications for the itaconic acid polymer technology platform.

Management and Board:
The management team has been augmented during the year with the addition of John Shaw and Dr Yvon Durant from the management of Itaconix Corporation, and the appointment of Dr Louise Crascall as Chief Commercial Officer with responsibility for the Personal Care business area.

The Board of Directors has also undergone change, with the appointment in September 2016 of chemicals industry veteran Dr Jim Barber as the nominee director of the former shareholders of Itaconix Corporation and the retirement of Jack Keenan and Robert Frost at the 2016 year end.

2016 Financial Highlights:

- £8.8m of short term deposits, cash and cash equivalents on hand at the year end (2015: £10.5m)
- Financial reporting for the year split into continuing operations (Specialty Chemicals including the US business of Itaconix Corporation acquired in June 2016) and discontinued operations (Nicotine Gum)
- Continuing operations revenue of £0.3m (2015: £0.0m), primarily Itaconix® DSP™, resulting in a gross profit of £0.1m (2015: £0.0m)
- Continuing operations administrative expenses (including research and development expenditure) of £5.3m (2015: £2.7m). The increase of £2.6m is explained by (i) an increase in non cash charges relating mainly to the acquisition of Itaconix of £1.0m; (ii) £0.3m of costs not expected to be recurring; (iii) the cost of running the new US business including research and development of £0.6m; (iv) additional UK staff costs including research and development of £0.3m; (v) additional other development costs of £0.1m; and (vi) additional advisory (including external finance and audit) costs of £0.1m
- Accordingly, Group operating loss before taxation was £5.2m (2015: £2.6m), the difference mainly accounted for by the increase in administrative expenses, half of which were non cash or non recurring
- Continuing operations loss for the year of £5.1m (2015: £0.7m), after R&D tax credits of £0.5m, (2015: £1.8m in total in respect of the 4 years 2012 to 2015 inclusive) and share of loss of associate of £0.5m (2015: nil)
- Net operating cash outflow from continuing operations before R&D tax credits of £3.9m (2015 £2.9m). The components of the £1.0m increase in the cash out flow were (i) £0.6m to fund the US business since acquisition; (ii) £0.2m of increased UK operating costs; and (iii) £0.2m of acquisition related transaction costs
- Intangible assets of £8.6m (2015: nil), comprising intellectual property of £2.9m (2015: nil) and goodwill of £5.7m (2015: nil), relating to the acquisition of Itaconix Corporation
- Non-current liabilities of £4.9m (2015: nil) comprising the fair value of deferred consideration payable to the former shareholders of Itaconix Corporation of £3.4m (2015: nil) and deferred tax in relation to the Itaconix Corporation intellectual property intangible assets acquired of £1.5m (2015: nil)
- Discontinued operations: loss after tax of £0.6m (2015: £1.1m) and net cash out flow of £1.3m (2015: £1.0m), reflecting 10 months of the Nicotine Gum business before divestment on 31 October 2016.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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Chairman's Statement

I am pleased to present my report as Chairman of the recently renamed Itaconix plc (formerly known as Revolymer plc). Itaconix is a specialty chemicals business which sells proprietary functional products or licences technology to the global, high growth and high margin market sectors of Personal Care, Homecare and Industrial. In summary, 2016 was a transformational year in the development of the Itaconix Group during which it has made significant progress in delivering its strategy.

Strategy and Implementation:

Historically the Group developed proprietary polymer technology commercialised through chewing gum products, technology licences and other product sales into targeted applications. In 2015 the Group's strategy was reset to transform the company into a more broadly based specialty chemicals business and the organisation was restructured accordingly. In 2016 further key steps were taken including:

- the divestment of the nicotine gum business to Alkalon; and
- the acquisition of Itaconix Corporation, a US specialty chemicals business with complementary proprietary products and technology

In addition to these structural steps, the business launched a number of new products and established a supply chain infrastructure enabling the production of specialty chemicals, using a combination of in-house manufacture of polyitaconates and contract manufacturers.

With this platform established, the Group is well placed for the key opportunity of 2017 of delivering accelerated revenue growth and moving towards profitability.

Business Performance:

The acquisition of Itaconix Corporation has significantly broadened the product portfolio of the Group through the inclusion of products based on the polymerisation of itaconic acid. This is important in a number of ways; for example sodium polyitaconate is the active used in RevCare™ NE our hair styling polymer for the Personal Care market, and products including Itaconix®DSP™ and Itaconix®CHT™ are already being actively marketed and sold in the Homecare business area. The revenues generated by these specialty chemical products are higher quality than the revenues generated by the legacy nicotine gum products, and as a result we expect gross profit margins to improve.

Although the key strategic changes have been carried out successfully, the initial rate of revenue growth has been slower than anticipated. However, in early 2017, there has been significant commercial progress with the signing of an exclusive global supply and joint marketing agreement with Croda relating to the odour removal additive ZINADOR, and a framework joint development agreement with AkzoNobel that should enable a number of commercial collaborations.

I look forward to reporting further product launches and growing revenues as the year progresses.

Shareholder Engagement:

In order to support the acquisition of Itaconix Corporation and fund the combined business going forward, we engaged with existing and new shareholders during the year and are very pleased that they chose to support our strategy, enabling us to raise £5.8m before expenses in July 2016. We also welcome the US-based shareholders of Itaconix Corporation to our register, having received $4m worth of Company shares as part consideration for the acquisition.

Looking forward, we have an active engagement program designed to broaden and diversify our shareholder base, supported by our new NOMAD and broker N+1 Singer appointed from the start of January 2017. We plan to use the recent re-launch of the business under the Itaconix name as a platform to interact broadly with institutional and private investors to clearly broadcast the Itaconix story and strategy.

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

Corporate governance:

The Board continues to monitor and, where appropriate, amend governance and control structures, including for example a comprehensive business risk assessment and mitigation process, and a medium term strategic planning cycle that is used to focus business priorities and drive the annual budget process.

The Board meets regularly during the year to monitor business performance and is provided with timely and relevant information before each meeting.

Although full compliance with the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council is not compulsory for AIM companies, the Board has chosen to apply those principles of the Code considered appropriate, taking into consideration Itaconix's size, stage of operations and the recommendations contained in the Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 ("QCA guidelines"). We intend to move towards full compliance over time, as the business grows and matures.

The performance, constitution and function of the Board of Directors was considered after the acquisition of Itaconix Corporation in the third quarter of 2016, around the time Jim Barber joined the board as the nominee of the Itaconix Corporation shareholders. As previously announced, Jack Keenan had already expressed an interest in retiring from the Board given his tenure since 2008, and both Jack and Robert Frost retired from the board with effect from 31 December 2016. With these changes in place, we feel that the size of, and range of experience and expertise across, the Board is appropriate for overseeing delivery of the current strategy. I would like to take this opportunity to thank Jack Keenan for his contribution to the development of Itaconix, including as the Chairman of the Board. I would also like to thank Robert Frost for his valuable industry insight and strategic guidance to the Group in his role as a Non-executive Director.

Conclusion:
2016 has been a continued period of change and evolution for the business, and I and the rest of the Board firmly believe that, under the strong leadership of Kevin Matthews, Itaconix is well placed to continue delivery against its strategy. The Board recognises that the reconfigured business is still at an early stage in its commercial development and so is not expected to become profitable in 2017, but we do expect that this year will see a number of new customers and revenue starts for Itaconix that will establish the basis for future revenue growth and profitability.

Dr Bryan Dobson
Chairman

Chief Executive Officer's Review

Business review

Overview:
2016 was a year of change and progress for Itaconix plc. The most significant events during the year relate to the strategic repositioning of the business. This started on 20 June 2016 with the announcement that the Company had unconditionally agreed to acquire Itaconix Corporation, a privately owned business based in New Hampshire, USA, for initial consideration of $7m (at the time approximately £4.9m) comprising $3m in cash and $4m in new ordinary shares, plus further deferred performance related consideration of up to $6m payable in new ordinary shares, subject to the satisfaction of certain performance criteria.

A further announcement was made on 21 June 2016, following the conclusion of an accelerated bookbuild process, that the Company had raised approximately £4m (before expenses) through the placing of 10,810,811 new ordinary shares at 37 pence per share. In addition, Woodford Investment Management agreed to invest an additional amount of approximately £1.8m through the issue of a further 4,869,411 new ordinary shares at the same placing price by way of an "accelerated whitewash" which was concluded on 8 July 2016. Through this exercise, the Company raised £5.8m (before expenses) to fund the new business.

On 16 September 2016, the Company announced that it had entered into agreements committing it to divest its nicotine gum business to the Danish company Alkalon, with completion subject only to the satisfaction of certain customary conditions precedent including the transfer of key customer contracts and the Canadian product licence to Alkalon. Completion occurred on 31 October 2016. Alkalon has EU regulatory approval for its products and an established European customer base, which complemented the Company's Canadian customer base. This transaction offers the potential to grow the resulting business in its existing territories as well as to expand into additional territories, benefiting from economies of scale in manufacturing and marketing. At completion, the consideration to Itaconix for the divestment of this business was a 15% equity holding in the combined new business, which may increase to 20% if additional specific contracts in Canada are secured within nine months of completion. The Company currently expects to hold the investment in Alkalon for the medium to long term and has the right to appoint a director to the board of the combined business. Accordingly Rob Cridland, Revolymer's CFO, has joined the Board of Alkalon.

Integration of the Company and Itaconix Corporation has progressed well, with significant technical and commercial opportunities identified to leverage the two organizations. The integration phase culminated in Revolymer plc being rebranded as Itaconix plc on 1 March 2017 to emphasise the change in focus and the acceleration of its development as a specialty chemicals business.

The strategic repositioning summarized above has brought a clearer vision to the expanded business. Itaconix plc aims to be a leader in functional polymers that improve the safety, performance and sustainability of our customer's products.

We believe that the low level of R&D spending within the chemical industry is creating the opportunity for expert innovators. The flexibility to design and produce materials with a wide range of functional performance and relatively low regulatory barriers make polymers an attractive space in which to be an innovator. Itaconix designs and manufactures proprietary specialty polymers to meet customers' needs. We are the world leader in polymers from itaconic acid, combining the versatile chemistry of itaconic acid with breakthrough production economics that make adoption of our products attractive to our customers. We are establishing a pipeline of products that compete on unique functionality and cost advantages in the home care and industrial markets and personal care. Itaconix also uses its specialty polymers and know how to encapsulate sensitive ingredients that are used in everyday products, examples including bleach actives and fragrances.

The main markets that Itaconix is focused on and that offer major commercial opportunities are:

- Homecare (cleaning and hygiene)
- Personal Care
- Industrial

These markets have common themes that act as drivers of change and product reformulation, as outlined below.

Regulations:
Tightening regulations continue to drive the phasing out of older product technologies, which are unsafe for humans and/or the environment, and offer opportunities for replacement products. Particular areas of focus for Itaconix are the replacement of phosphates in laundry and automatic dish wash (“ADW”), and the development of formaldehyde free encapsulation for a number of sensitive ingredients including fragrances.

Performance:
Consumers continue to demand more effective products or cheaper products with the same performance. Itaconix has product technologies that can either improve performance (such as an improved performance hair styling additive) or make more efficient use of ingredients (such as the encapsulation of bleach for the laundry or ADW market).

Sustainability:
Increasing concerns regarding the environment are reflected in a strong consumer trend towards bio-based products, particularly in markets such as personal care, or products that save energy or materials. Itaconix has identified these drivers and has launched a bio-based hair styling polymer for personal care, a bio-based malodour product for homecare and has licensed technology to Solvay enabling low-temperature bleach performance in laundry and ADW.

In addition to the strategic redesign of the business described above, significant effort was also invested in 2016 towards activities that should underpin future growth, setting up supply chains for new products, launching new products, and securing new product revenue starts. In anticipation of the growing commercial engagement described below, Itaconix undertook a $1m investment to upgrade its polyitaconate manufacturing facility, quadrupling previous capacity. After successful commissioning, the facility came on line in March 2017.

Finally, there have been some board changes during the year that also reflect the focus of the business going forward. Dr Jim Barber, a US citizen, was appointed as a non executive director with effect from 12 September 2016, representing the interests of the previous shareholders of Itaconix Corporation as their board nominee. Jim serves on the Advancement Council of the College of Polymer Science and Polymer Engineering at the University of Akron, and as a non-executive director of Graham Corporation and Nanocomp Technologies. He had previously served as an advisor and a director for a number of firms including being President and CEO of Metabolix, Inc. from January 2000 to May 2007. During this period, he led the transformation of Metabolix from a research boutique to a world renowned, highly regarded leader in “clean tech” and industrial biotechnology, listed on NASDAQ. Prior to joining Metabolix Inc., Jim served as Global Business Director for the Organometallics and Catalysts business of Albemarle Corporation and as Representative Director of Nippon Aluminum Alkyls, a joint venture Company between Albemarle Corporation and Mitsui Chemicals, Inc.

Mr Jack Keenan and Mr Robert Frost both retired from the board with effect from 31 December 2016. Mr Keenan had been a non executive director of the business since January 2008, and was Chairman from the flotation on the AIM Market in July 2012 to September 2015. Mr Frost joined the board at its flotation on the AIM Market in July 2012 as the nominated director of Naxos Capital Partners, an investor in the business since May 2010.

Commercial Review:
Our polymers are used in a number of consumer and industrial products to reduce cost, improve performance, and reduce impact on the environment. We make polymers for better living in three broad market sectors, Personal Care, Homecare and Industrial.

Personal Care:

Itaconix has developed a bio-based polymer, RevCare™ NE 100S, that is an effective hair styling polymer, providing good hair hold even in highly humid conditions. It is also effective as an anti-frizz agent and leaves the hair feeling natural. Although no sales were made in the period, the product was launched at the Global In Cosmetics show held in Paris in April 2016 with a positive reception. Since April 2016 we have been actively developing the market, sampling customers and establishing distributor relationships. We announced the appointment of Dr Louise Crascall as Chief Commercial Officer in June 2016 to lead the Personal Care business segment. Louise has a strong background in haircare, having previously been with Vivimed (a hair dye company) and she has helped accelerate commercial engagement with customers in this market. We are in the process of appointing distributors in key European and Asian territories and have direct relationships with a number of the Tier 1 and Tier 2 personal care houses. The current hair styling polymer market is estimated at $400m pa and is mainly based on polymers derived from petrochemicals. The chart below compares the performance of RevCare™ NE 100S with the main products in the market. We believe that our product represents a competitive offering purely from a performance perspective, but also offers the added advantage of being bio-based, and we are progressing a number of commercial opportunities currently.

Properties	**Rev Care NE 100S**	**Product A**	**Product B**	**Product C**	**Product D**
Single curl retention	√	X	√	√	X
Comb low resistance	√√	√√	√	X	X
Curl softness	√√	√	√√	X	√
Single curl flexibility	√	√	√√	X	√
Anti-frizz	√√	X	√	√√	X
Curl bounce	√√	X	X	√√	√
Natural feeling	√	√	X	X	X
Water soluble	√	√	√	√	X
Cost in use	√	√√	√	X	X

Source: Company data

Homecare and Industrial:

Itaconix has both specialty polymers and encapsulation technology that are beginning to gain traction in the homecare and industrial markets, and we will discuss these two sectors together as some of our products serve both.

On 27 January 2017, Itaconix announced that it had signed a joint development agreement with AkzoNobel Chemicals International B.V. to advance commercial collaborations in certain applications for the itaconic acid polymer technology platform. The agreement establishes a broad operating framework for the parties to jointly identify, develop and commercialise new polymers using Itaconix's patented technology focused on improving the cost and performance of our customers' formulations with increasingly more sustainable products, which fits well into AkzoNobel's sustainability agenda. Although the specific areas of collaboration have yet to be announced, we are excited by the potential to work together to identify and develop attractive commercial opportunities.

Specialty Polymers:

1) Itaconix® DSP™ & Itaconix® CHT™

The acquired business of Itaconix has developed polymers that are effective chelants. Chelating agents are used to improve the detergency power of cleaners and detergents and are estimated to have a market worth around $1bn pa in the home care and cleaning market.

Traditionally the main product used in laundry and ADW formulations has been sodium tripolyphosphate. Phosphates have been under increasing pressure due to the fact that they cause eutrophication of water courses. As a result, they have been banned in both the USA and EU in laundry, and phosphates are no longer allowed to be used in European ADW formulations from January 2017. As a result of the ban on phosphates, second generation chelants have been developed and have been formulated into a wide range of consumer products. The current second generation products still have some performance limitations and Itaconix has developed cost competitive alternatives that offer performance advantages. Itaconix® DSP™ is a product that is already used in a number of powder laundry products and represents the majority of the revenue generated by the business in 2016 since acquisition (£0.3m). Itaconix® CHT™ is a product used in ADW formulations which was launched in 2016 and saw its first commercial sale in September 2016. We are currently working to generate additional sales.

2) Itaconix® ZINADOR™

Itaconix® ZINADOR™ 22L is a major advance in odour neutralisation. Zinc complexes are widely used to neutralise odours and ZINADOR performs equal to or better than the current leading zinc-based technology at neutralising food odours, cat urine, and body odour. It is also a 100% naturally derived product that delivers major new formulating, use, and cost advantages due to its ready water solubility and lack of residual deposits after use.

On 23 January 2017, Itaconix announced that it had signed an exclusive global supply and joint marketing agreement with Croda Inc. in respect of its polymer-based odour removal additive Itaconix® ZINADOR™ 22L. Under the terms of the agreement, the parties will work together to grow and supply worldwide demand for ZINADOR. Itaconix will produce ZINADOR for Croda and Croda will market and sell ZINADOR in household, municipal, animal and industrial applications, subject to certain terms and conditions. Itaconix will continue providing its technical and marketing expertise to jointly expand applications and geographic opportunities for ZINADOR with Croda. This deal results from a successful initial joint customer development program and was followed rapidly by the first major order from Croda in March 2016.

Encapsulation:

Itaconix has previously announced three encapsulation licenses in the homecare ingredients market in which encapsulation is estimated as representing a $500m pa market:

- 25 September 2014: Grant of a global exclusive licence to Solvay for the encapsulation of a specialty peroxide called PAP for use in laundry detergents and ADW agents, for the consumer, domestic, industrial and institutional markets
- 3 June 2015: Solvay secures exclusive rights to apply Itaconix's encapsulation technology to the bleaching active ingredient sodium percarbonate ("SPC") and commercialised currently by Solvay under the trademark Oxyper®, in the field of liquid formulations of laundry and ADW
- 1 September 2015: OCI secures rights to apply Itaconix's encapsulation technology to its SPC based bleaching active ingredients, in the field of powder and other solid formulations of laundry, ADW and other cleaning agents.

Following execution of a licence, Itaconix works with its licensees to transfer the technology and scale-up the industrial utilisation of the technology. A key commercial challenge for the Group is the time it takes in the specialty chemicals industry to successfully develop and market new products from these licences and generate meaningful revenue.

Pipeline & Technology Development:

The strategic repositioning of the business in 2016 has resulted in a fundamental shift from a business dominated by licenses and poor quality nicotine gum revenue to a specialty product based business. Itaconix now has nine launched products and five significant deals of which three are licenses (two with Solvay and one with OCI), one is a supply and joint marketing agreement (Croda) and one a joint development framework agreement (AkzoNobel).

There remains a healthy new product development pipeline, but the main focus of the business is on securing customers for the products already launched. Itaconix has continued to build its application expertise in Homecare (laundry and ADW)) and Personal Care (specifically haircare). This provides the business with the necessary insights into how its customers are likely to use the new products and to generate data that will support the selling process.

Itaconix continues to invest in patents to protect its innovative new products and technologies. As at 1 February 2017 the business had 28 patent families and 42 granted patents.

Financial review

The financial statements have been prepared on a going concern basis which the Directors, having undertaken appropriate investigation as summarised below in Note 1, believe continues to be appropriate. Following the divestment of the Nicotine Gum segment in October 2016, the financial statements have been divided into continuing operations (comprising the Specialty Chemicals business segment, including Itaconix Corporation acquired in June 2016), and discontinued operations (comprising the Nicotine Gum business segment divested in October 2016) which are reported in single lines in the income and cash flow statements, and further explained in Note 5.

Continuing operations

Cash flow

Operating cash flow:
Excluding the discontinued operations of Nicotine Gum, net cash outflow from continuing operating activities was £3,478k (2015: £1,591k). Before R&D tax credit receipts of £481k (2015: £1,343k), cash outflow from continuing operating activities was £3,959k (2015: £2,934k). The components of the increase of £1,025k were (i) £613k in respect of the US business since acquisition on 20 June 2016; (ii) £222k in respect of increased UK operating costs; and (iii) £190k of acquisition related transaction costs.

Investing cash flow:
Excluding existing funds withdrawn from term deposits, investing activity cash outflow was £2,470k (2015: £89k), the difference of £2,381k reflecting primarily (i) the $3m upfront cash payment component of the purchase price of Itaconix Corporation in June 2016; and (ii) purchase of property, plant and equipment as part of an investment project to expand the manufacturing facility in the US.

Financing cash flow:
Net cash inflow from financing activities was £5,473k (2014: £18k), the difference of £5,455k reflecting the net proceeds of the refinancing completed in July 2016 with existing and new institutional investors less the transaction costs of the share issuance to Itaconix Corporation shareholders.

As a result, the balances on hand at the year end were cash, cash equivalents and short term deposits of £8,789k (2015: £10,514k).

Operations

Revenue and gross profit:

Revenue for the period from continuing operations was £285k (2015: £27k), being sales of the products of Itaconix Corporation since acquisition, primarily Itaconix® DSP™, resulting in a gross profit of £55k (2015: £27k).

Administrative expenses:

The administrative expenses (including research and development) of continuing operations were £5,275k (2015: £2,663k), and the key drivers of the £2,612k increase were: (i) an increase of £1,014k in non cash charges to £1,018k (2015: £4k), the majority of which relate to the acquisition of Itaconix Corporation; and (ii) an increase of £1,598k in expenses that have a cash impact to £4,257k (2015: £2,659k), both as analysed in the table below. In respect of the increase in expenses that have a cash impact, at least £300k are not expected to be recurring costs (the largest item being £190k of transaction costs associated with the acquisition of Itaconix Corporation). The significant components of the increase in administrative expenses before non cash items and non recurring items of £1,296k were: (i) administrative expenses (including research and development) of the US business (formerly Itaconix Corporation) of £560k; (ii) additional staff costs in the UK (including research and development) of £307k; (iii) an increase in other product development costs related to the expanded portfolio of £116k; and (iv) additional advisory costs (including financial and audit) associated with the expanded Group of £139k.

	2016 £'000	2015 £'000
Non cash expenses:		
Equity settled share based payment (credit) /expense	136	(290)
Employer's national insurance charge/ (credit) associated with vested share options	(108)	69
Depreciation of owned assets	202	160
Amortisation of intangible assets	132	-
Impairment of intangible assets	29	-
Foreign exchange differences	627	65
	1,018	**4**
Expenses with a cash impact:	**4,257**	**2,659**
	5,275	**2,663**

Finance income:

Interest receivable on bank deposits and investments was £51k (2015: £88k), the reduction reflecting the reduced balance of cash, cash equivalents and short term deposits compared to the prior period.

Loss before taxation:

The loss before tax from continuing operations was £5,639k (2015: £2,522k), reflecting the net effect of the movements described above, as well as the inclusion of the non cash share of loss of associate in relation to the divested Nicotine Gum business segment of £508k (2015: nil).

Taxation:

During the year R&D tax credits were claimed of £531k (2015: £1,793k). These credits include amounts from 2015 of £31k (2015: £1,343k – including amounts relating to the three years 2012 to 2014 as well as 2015).

Loss for the year:

The loss for the year from continuing operations was £5,108k (2015: £729k), and the basic and diluted loss per share from continuing operations was 7.3p (2015: 1.3p).

Discontinued operations:

The loss after tax from discontinued operations was £608k (2015: £1,063k), reflecting the loss for the 10 months to the end of October 2016 before the Nicotine Gum business segment was divested. The net cash out flow from discontinued operations was £1,250k (2015: £1,010k).

Balance sheet items - intangible assets:

The Group now has £8,561k of intangible assets arising on the acquisition of Itaconix Corporation (2015: nil) which were reviewed for impairment or amortised as appropriate at the year end. The main constituents are intellectual property (£2,899k, 2015: nil) and goodwill (£5,662k, 2015: nil).

Balance sheet items – non-current liabilities:

The Group now has £4,872k of non-current liabilities arising on the acquisition of Itaconix Corporation (2015: nil), comprised of provisions of £3,414k (2015: nil) and a deferred tax liability of £1,458k (2015: nil). The provisions represent the fair value of the deferred consideration payable in ordinary shares to the former shareholders of Itaconix Corporation, which will be reviewed at each period end. The deferred tax liability relates to the intellectual property acquired with Itaconix Corporation.

Outlook:

Management is pleased to have executed significant transactions during the year including acquiring the polyitaconic acid based product platform of Itaconix Corporation and divesting the Nicotine Gum business segment. Whilst the Group has exited the headline revenue stream from nicotine gum, this was a non-strategic loss making business, and we look forward to growing higher quality revenues from the core Specialty Chemicals business segment. Whilst the cost base has increased with the addition of our new US business, the Itaconix Group remains funded with £8.8m of short term deposits, cash and cash equivalents on hand at the year end (2015: £10.5m).

To date we have made progress with a number of new product launches and agreements signed, based on improving the performance of our customers' products. The key challenge for the business looking forward is that revenue and profit is dependent on the speed with which the Group's customers bring our new products to market. Accordingly our strategy is to maximise the number of viable customer relationships to reduce any dependence on individual customers, and work closely with them to expedite the commercialisation of these new products; and in this regard we have made a good start to 2017, and look forward to further commercial progress in the year ahead.

Dr Kevin Matthews
Chief Executive Officer

Consolidated income statement

For the year ended December 2016

	Notes	**2016 £'000**	2015 £'000
Continuing operations			
Revenue	2	**285**	27
Cost of sales		**(230)**	-
Gross profit		**55**	27
Other operating income		**38**	26
Administrative expenses		**(5,275)**	(2,663)
Group operating loss		**(5,182)**	(2,610)
Finance income		**51**	88
Share of loss of associate	3	**(508)**	-
Loss before tax from continuing operations		**(5,639)**	(2,522)
Taxation credit	4	**531**	1,793
Loss for the year from continuing operations		**(5,108)**	(729)
Loss after tax for the year from discontinued operations	5	**(608)**	(1,063)
Loss for the year		**(5,716)**	(1,792)
Basic loss per share	6	**(8.2)p**	(3.2)p
Diluted loss per share	6	**(8.2)p**	(3.2)p
Basic loss per share from continuing operations	6	**(7.3)p**	(1.3)p
Diluted loss per share from continuing operations	6	**(7.3)p**	(1.3)p

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

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

Consolidated statement of other comprehensive income
For the year ended December 2016

	Notes	2016 £'000	2015 £'000
Loss for the year		**(5,716)**	(1,792)
Items that will be reclassified subsequently to profit or loss			
Exchange differences in translation of foreign operations		**(124)**	-
Total comprehensive loss for the year, net of tax		**(5,840)**	(1,792)
Atributable to:			
Equity holders of parent		**(5,840)**	(1,792)

Consolidated balance sheet

At 31 December 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Property, plant and equipment		**803**	340
Intangible assets	7	**8,561**	–
Trade and other receivables		**-**	-
Investment in subsidiary undertakings		**-**	–
Investment in associate undertakings	3	**145**	-
		9,509	340
Current assets			
Inventories	8	**210**	164
Trade and other receivables		**835**	1,017
Investments	9	**-**	7,000
Cash and cash equivalents		**8,789**	3,514
		9,834	11,695
Total assets		**19,343**	12,035
Financed by			
Equity shareholders' funds			
Equity share capital	11	**787**	567
Equity share premium		**28,588**	23,220
Own shares reserve		**(5)**	(5)
Merger reserve		**20,361**	17,626
Share based payment reserve		**6,220**	6,084
Foreign translation reserve		**(124)**	-
Retained earnings		**(42,936)**	(37,168)
Total equity		**12,891**	10,324
Non-current liabilities			
Provisions	10	**3,414**	–
Deferred tax liability		**1,458**	–
		4,872	–
Current liabilities			
Trade and other payables		**1,580**	1,711
Total liabilities		**6,452**	1,711
Total equity and liabilities		**19,343**	12,035

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Equity share capital £'000	Equity share premium £'000	Own shares reserve £'000	Merger reserve £'000	Share based payment reserve £'000	Foreign translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2015	566	23,203	(5)	17,626	6,374	–	(35,376)	12,388
Loss for the year	–	–	–	–	–	–	(1,792)	(1,792)
Exercise of share options	1	17	–	–	–	–	–	18
Share based payments	–	–	–	–	(290)	–	–	(290)
At 1 January 2016	567	23,220	(5)	17,626	6,084	–	(37,168)	10,324
Loss for the year	–	–	–	–	–	–	(5,716)	(5,716)
Other comprehensive income	–	–	–	–	–	(124)	–	(124)
Shares issued to the market in the year	157	5,645	–	–	–	–	–	5,802
Shares issued as consideration for Itaconix in the year	63	–	–	2,735	–	–	–	2,798
Transaction costs	–	(278)	–	–	–	–	(52)	(330)
Exercise of share options	–	1	–	–	–	–	–	1
Share based payments	–	–	–	–	136	–	–	136
At 31 December 2016	**787**	**28,588**	**(5)**	**20,361**	**6,220**	**(124)**	**(42,936)**	**12,891**

The reserves described above have the purposes described below:

Own shares reserve:

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

Merger reserve:

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

Share based payment reserve:

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

Foreign exchange translation reserve:

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

Consolidated statement of cash flow

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Net cash (outflow) / inflow from continuing operating activities	12	**(3,478)**	(1,591)
Net cash (outflow) from discontinued operating activities	5	**(1,250)**	(1,010)
Net cash (outflow) / inflow from operating activities		**(4,728)**	(2,601)
Cash flows from investing activities			
Interest received		**91**	107
Purchase of property, plant and equipment		**(518)**	(196)
Acquisition of subsidiary, net of cash acquired		**(2,043)**	-
Funds withdrawn from term deposits		**7,000**	4,500
Net cash inflow from investing activities		**4,530**	4,411
Cash received from issue of shares		**5,525**	18
Transactions costs paid on the issue of shares		**(52)**	-
Cash loaned to subsidiary undertaking		**-**	-
Net cash inflow / (outflow) from financing activities		**5,473**	18
Net inflow / (outflow) in cash and cash equivalents		**5,275**	1,828
Cash and cash equivalents at beginning of year		**3,514**	1,686
Cash and cash equivalents at end of year		**8,789**	3,514

Notes to preliminary results

For the year ended 31 December 2016

1. Basis of preparation

English law requires that the Group’s consolidated financial statements for the year ended 31 December 2016 are prepared in accordance with all applicable International Financial Reporting Standards (‘IFRSs’), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee (‘IFRIC’) interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 31 December 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2015 and 2016.

The financial statements have been prepared on a going concern basis which the Directors, having undertaken appropriate investigation as summarised below, believe continues to be appropriate.

The Group made a loss for the year of £5,716k, had Net Current Assets at the period end of £8,254k and a Net Cash Outflow from Operating Activities of £4,728k. Primarily, the Group meets its day to day working capital requirements through existing cash resources and had on hand cash, cash equivalents and short term deposits at the balance sheet date of £8,789k (2015: £10,514k), following the acquisition of the US Itaconix business (see Note 7) and cash received from the issue of shares in the period of £5,802k before expenses.

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

Trading and cash flow forecasts modelling a number of scenarios were prepared for the period through to the end of 2020. The forecasts reflect the status of the Group’s current activities and varying levels of achievement against the Board approved strategic plan for the business, which is informed by the intent of the Board to continue to successfully develop its operations and move to being cash generative by 2020.

These forecasts indicate that the Group has sufficient financial resources to continue to fund the business, based on the current scope of operations, through to at least mid 2018 and meet its liabilities as they fall due. The Board recognises that it is probable that there will be a need for further fundraising before the end of 2018 to enable the Group to continue as a going concern, but anticipates that this will be completed based on the Group delivering commercial progress (namely product launches and revenue growth) in the intervening period, and taking into account recent successful fundraisings. The Board will also consider reducing the Group’s cost base as necessary, depending on commercial performance.

On this basis, the Directors consider that, at this time, there are no material uncertainties that might cast doubt upon the appropriateness of the continuing application of the going concern basis of preparation.

2. Revenue

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

	2016	2015
	£'000	£'000
Sale of goods	**285**	27
Revenue	**285**	27

Geographical information

	2016	2015
	£'000	£'000
Europe	**140**	7
North America	**145**	20
	285	27

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

Segmental information

The revenue information above is derived from the continuing operations and excludes the Nicotine Gum segment that was disposed of during the year (see Note 5).

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

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

3. Investment in associate

The Group acquired a 15% equity interest in Alkalon on 31 October 2016. Alkalon is a Danish speciality pharma company focused on developing and commercialising medicated chewing gum formulations. It is a private entity not listed on any public exchange and there is only one share class in issue (ordinary shares) so that all shareholders hold the same class of share with the same rights attached (i.e. there are no restrictions specific to the Group's holding). The Group's interest in Alkalon is accounted for using the equity method in the consolidated financial statements. The acquisition is considered to be a long term investment. The fair value of the investment at the period end was arrived at as described below.

	£'000
Assets transferred to Alkalon at completion on 31 October 2016	
Plant and machinery	26
Inventory	637
Value of investment at 31 October 2016	663
Share of loss of equity-accounted investees, net of tax	(2)
	661
Loss on foreign exchange	(10)
Value of Alkalon investment before impairment at 31 December 2016	651
Impairment of investment	(506)
Fair value of Alkalon investment at 31 December 2016	145

At completion, independent Danish accountants made a judgement on the value of the investment at DKK8.178m (£987k), as announced by the Company at the time in accordance with relevant regulatory requirements. Itaconix management understands this valuation was based on the delivery of a business plan written by Alkalon management.

At 31 October 2016 Itaconix management valued the investment at the value of the assets actually transferred to Alkalon, and then reviewed this value for impairment as at 31 December 2016. The conclusion of this review was that, based on developments after, and information received after, 31 October 2016 (through participation in Alkalon board meetings), risks associated with the delivery of the Alkalon business plan exist that are not reflected in the DKK8.178m valuation, primarily relating to the probable extent of delivery of the business plan. Therefore an impairment was triggered subsequent to the acquisition.

To measure the impairment, management adopted a risk adjusted discounted cash flow approach to valuing the Alkalon business. This involved projecting and discounting cash flows for upside, base and downside cases reflecting varying extents of delivery of the Alkalon business plan, and then applying to the NPV for each case an estimated probability of occurrence, the sum of which provides a weighted valuation. From this was subtracted the existing net debt to derive an estimated overall market value.

The key assumptions were: a discount rate of 10%, valuation of 10 years of cash flows with no terminal value (to reflect management's conservative approach) and use of the Alkalon business plan out to 2020, with no further growth assumed 2021 to 2026. Interest on the debt was per management's understanding of the agreement with Alkalon's bank.

The impairment calculated of £506k was charged to share of loss of equity-accounted investees, net of tax.

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

The following table summarises financial information relating to Alkalon for the 2016 financial year and shows the Group's share of the loss for the two months since the Group acquired its shareholding:

	2016
	£'000
Intangible fixed assets	528
Tangible fixed assets	60
Current assets	2,640
Current liabilities	(1,771)
Equity	1,457

	2016
	£'000
Revenue	3,826
Cost of sales	(2,983)
Administration expenses	(871)
Finance income	1
Finance costs	(60)
Loss before tax	(87)
Income tax expense	-
Loss for the year (continuing operations)	(87)
Total comprehensive loss for the year	(87)
Group's share of loss for the year	(2)

The Group's share of the loss for the year is based on a pro rata amount since acquisition.

The associate had no contingent liabilities or commitments as at 31 December 2016.

4. Taxation

	2016	2015
	£'000	£'000
Corporation tax credits		
Prior years' corporation tax credits	**31**	1,343
Current year corporation tax credits	**500**	450
UK corporation tax credits	**531**	1,793

During the year ended 31 December 2016, the Group had a taxation credit of £531k (2015: £1,793k) £500k of which relates to R&D tax credits estimated to be claimable on qualifying expenditure for the year ended 31 December 2016. The amount of R&D tax credits actually received in the year of £481k relates to submitted R&D tax claims for the year ended 31 December 2015 and the amount to be received of £500k relates to the R&D tax claim to be submitted for the year ended 31 December 2016. In 2015 the amount of R&D tax credits actually received in the year of £1,343k relates to submitted R&D tax claims for the three years ended 31 December 2014 and the amount to be received of £450k relates to the R&D tax claim to be submitted for the year ended 31 December 2015.

5 Discontinued operations

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

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

	2016	2015
	£'000	£'000
Revenue	**1,127**	1,222
Cost of sales	**(948)**	(1,162)
Gross profit	**179**	60
Administrative expenses	**(787)**	(1,123)
Impairment loss recognised on the re-measurement to fair value less costs to sell	**-**	-
(Loss) before tax from discontinued operations	**(608)**	(1,063)
Tax benefit: Related to current pre-tax loss	**-**	-
Tax benefit: Related to re-measurement to fair value less costs to sell (deferred tax)	**-**	-
(Loss) for the year from discontinued operations	**(608)**	(1,063)

Administrative expenses are stated after charging:

Depreciation	**(8)**	(10)

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

	2016	2015
	£'000	£'000
Operating	**(1,250)**	(1,010)
Investing	**-**	-
Financing	**-**	-
Net cash outflow	**(1,250)**	(1,010)

Earnings per share:

	2016	2015
Basic loss for the year from discontinued operations	**(0.9p)**	(1.9p)
Diluted loss for the year from discontinued operations	**(0.9p)**	(1.9p)

6. Loss per share

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

	Continuing operations 2016	**Discontinued operations 2016**	**Total 2016**	Continuing operations 2015	Discontinued operations 2015	Total 2015
Loss	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Loss for the purposes of basic and diluted loss per share (£'000)	**5,108**	**608**	**5,716**	729	1,063	1,792
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share ('000)	**69,738**	**69,738**	**69,738**	56,603	56,603	56,603
Basic and diluted loss per share	**7.3p**	**0.9p**	**8.2p**	1.3p	1.9p	3.2p

The loss for the period and the weighted average number of ordinary shares for calculating the diluted earnings per share for the period to 31 December 2016 are identical to those used for the basic earnings per share. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive.

7. Intangibles

	Goodwill £'000	Customer Relationships £'000	Intellectual Property £'000	Total £'000
Cost				
At 1 January 2015	-	-	-	-
Additions	-	-	–	-
Disposals	-	–	–	-
At 1 January 2016	-	-	-	-
Acquisitions through business combinations	5,662	29	3,031	8,722
At 31 December 2016	**5,662**	**29**	**3,031**	**8,722**
Amortisation and impairment				
At 1 January 2015	-	-	-	-
Amortisation for the year	-	-	-	-
Impairment charge	-	-	-	-
At 1 January 2016	-	-	-	-
Amortisation for the year	-	-	132	132
Impairment charge	-	29	–	29
At 31 December 2016	**-**	**29**	**132**	**161**
Net book value				
At 31 December 2016	**5,662**	**-**	**2,899**	**8,561**
At 31 December 2015	-	-	-	-

Since the acquisition of Itaconix Corporation occurred in the middle of the year, the intangible assets acquired are required to be amortised or reviewed for impairment at the period end (and at least annually thereafter). The intangible assets identified out of the purchase price allocation process were intellectual property and customer relationships, and the balance required to reconcile from the value of the net tangible assets to the fair value of the purchase price was goodwill.

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

Management conducted an impairment review of the customer relationships. On review, management noted that the lack of customer contracts could theoretically result in such relationships being terminated at short notice and so elected to impair them to nil. It was also noted that the initial value of these assets was immaterial.

With respect to reviewing goodwill for impairment, management adopted a discounted cash flow approach to valuing the relevant cash generating unit (CGU). The Board approved strategic plan is the current medium term performance target for the Group covering the four financial years 2017 to 2020, and so was used as the source of cash flows for the CGU. For the years beyond 2020 a terminal value was included based on a 2% growth rate, which management believes is appropriate for the specialty chemicals industry. A discount rate of 12.4% was used to discount the cash flows.

Using this approach a net present value exceeding the fair value of the consideration was arrived at. Sensitivity analysis was also performed by varying the discount rate used and the extent to which the strategic plan was delivered, as summarised below:

Discount rate – the discount rate could increase to 13.5% before impairment is required
Delivery of strategic plan – the delivery of the plan could reduce to 88% of forecast before impairment is required

Based on the analysis and sensitivity analysis performed, management concluded that there was no need to impair the value of goodwill. However, it was noted that there was limited headroom before impairment would be necessary and so the matter will be kept under close review.

Acquisitions

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

Assets acquired and liabilities assumed:

The fair value of the identifiable assets and liabilities of Itaconix Corporation as at the date of acquisition were:

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

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

The goodwill of £5,662k comprises the value of expected synergies arising from the acquisition and is allocated entirely to the US operations CGU.

The Group issued 6,305,050 ordinary shares of nominal value 1p each as consideration for a 100% interest in Itaconix Corporation. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was 44.38p per share. The fair value of the consideration was therefore £2,798k. Transaction costs of £190k were expensed and are included in administrative expenses. The cost of issuance of the shares to Itaconix Corporation shareholders was £52k, charged to the retained earnings.

As part of the purchase agreement with the previous owners of Itaconix Corporation, a contingent consideration has been agreed. This deferred performance related consideration will be payable to the Itaconix Corporation shareholders, subject to the achievement of certain growth targets for the calendar years 2017 to 2020, based on 50% of incremental annual net sales value above $3m in 2017 and in excess of the prior year for 2018 to 2020 inclusive. The deferred performance related consideration is capped at $6m in aggregate. Such deferred performance consideration, if any, will be satisfied annually entirely in ordinary shares of Itaconix plc.

At the reporting date the deferred consideration was measured as £3,414k. In order to value the deferred performance related consideration, management made judgements about the likelihood of it being paid, and the phasing of such payments. To inform this judgement reference was made to the following significant unobservable valuation inputs:

- the Board approved medium term strategic plan for the Group which forecasted relevant product annual net sales and therefore allowed a profile of future deferred consideration payments to be estimated
- this payment profile was then discounted at an appropriate rate (12.4%) to derive a net present value that was used as the basis for the fair value of the deferred consideration.

As at 31 December 2016, management has assumed that the medium term strategic plan will be achieved and the full $6m will be payable, settled in Itaconix plc ordinary shares. This is reflected as a non-current liability in the Group balance sheet after discounting to reflect risk and the time value of money.

Future developments may require revisions to the estimate. A significant decrease in the net sales or a significant increase in the discount rate and non-performance risk would result in a lower fair value of the contingent consideration liability. A 1% increase in the discount rate would reduced the deferred consideration by £136k as at 31 December 2016.

The total amount of goodwill expected to be deductable for tax purposes is nil.

From the date of acquisition, Itaconix Corporation contributed £285k of revenue and £852k of losses from continuing operations to the Group. The amount of revenue of the subsidiary for 2016 financial year assuming the acquisition had taken place at the start of the accounting period was £510k and the loss for the same period was £1,274k.

8. Inventories

	2016	2015
Group	**£'000**	£'000
Raw materials	**46**	70
Work in progress	**-**	14
Finished goods	**164**	100
Goods in transit	**-**	-
Provisions	**-**	(20)
	210	164

9. Investments

	2016	2015
	£'000	£'000
Term deposits maturing within one year	**-**	7,000

10. Provisions

Contingent consideration	**2016**	2015
	£'000	£'000
As at 1 January 2016	**-**	-
Arising during the year	**3,414**	-
As at 31 December 2016	**3,414**	-
Current	**-**	-
Non-current	**3,414**	-

The contingent consideration relates to the fair value of the $6 million of deferred consideration payable to the former owners of Itaconix Corporation as part of the acquisition price. This consideration is payable in new ordinary shares in Itaconix Plc, subject to the satisfaction of certain business performance criteria in the period 2017 to 2020 inclusive. Management currently believes that all of the consideration will become payable, but it has been discounted to reflect its risk and payment profile in future periods. See Note 7 for further details.

11. Share capital

	£'000
At 1 January 2015 (56,561,140 shares in issue)	566
Issued as a result of an exercise of options	
01/09/15-3,000, 07/10/15- 44,000	1
09/10/15-3,000, 21/10/15-16,500, 27/11/15-3,000	
New share issued	
08/05/15-36,036	
At 31 December 2015 (56,666,676 shares in issue)	567
Issued as a result of an exercise of options	
25/02/16-3,000, 30/03/16-3,000	-
New share issued	
20/06/16-6,305,050	
11/07/16 -15,680,222	220
At 31 December 2016 (78,657,948 shares in issue)	787

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

On the 20 June 2016 the Company issued 6,305,050 ordinary shares with a nominal value of 1p per share for 44.38p per share as part of the consideration for the acquisition of Itaconix Inc (see Note 7).

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

12. Notes to the cash flow statement

	2016	2015
	£'000	£'000
Operating loss	**(5,182)**	(2,610)
Depreciation of property, plant and equipment	**202**	160
Amortisation and impairment	**161**	-
Impairment of group indebtedness	**-**	-
Loss on foreign exchange	**627**	-
Share based payments / (credits) charge	**136**	(290)
Taxation	**481**	1,343
Operating cash flows before movements in working capital	**(3,575)**	(1,397)
Decrease / (increase) in inventories	**(60)**	-
(Increase) / decrease in receivables	**339**	(90)
(Decrease) / increase in payables	**(182)**	(104)
Net operating cash (outflow)/inflow	**(3,478)**	(1,591)

13. Contingent asset

Under the terms of the divestment of the nicotine gum business to Alkalon, the Group will be entitled to an additional 5% shareholding in the combined business that resulted from the transaction if a certain commercial contract is awarded to Alkalon within 9 months of completion of the divestment, i.e. before the start of August 2017. No asset has been recognised in respect of this matter.

14. Contingent liability

In connection with the divestment of the nicotine gum business, at the time of publication of this annual report: (i) the Canadian nicotine gum product licences have been transferred to Alkalon; (ii) the Canadian nicotine gum customers have new direct contracts with Alkalon; (iii) Itaconix (U.K.) Ltd has served notice of termination on the Canadian customers (but it will not be effective until August 2017); and (iv) the Group's nicotine gum contract manufacturing agreement has not yet been transferred or novated in favour of Alkalon. Therefore there is limited risk associated with the incomplete transfer of these commercial relationships, notwithstanding that transaction completion has occurred and Alkalon has provided the Group with appropriate contractual indemnities. If Alkalon was insolvent and unable to pay Itaconix, Itaconix would still be liable to the contract manufacturer under the yet to be novated agreement for payment for product supplies. Additionally, since Itaconix is required to give 6 months notice of termination to the Canadian customers (actually served in February 2017) there is a limited risk that such customers place orders on Itaconix before termination is effective in August 2017 which it cannot honour as it is no longer the product licence holder, notwithstanding the agreements the Canadian customers have directly with Alkalon.