

Illumina Cambridge Limited

Annual Report and Financial Statements

30 December 2012

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COMPANIES HOUSE

Directors

J Flatley
C Henry
M Stapley
T Orpin

Secretary

C Dadswell

Auditor

Ernst & Young LLP
One Cambridge Business Park
Cambridge
CB4 0WZ

Bankers

Bank of America, Inc
5 Canada Square
London
E14 5AQ

Registered office

Chesterford Research Park
Little Chesterford
Saffron Walden
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Directors' report

The directors present their annual report and financial statements for the period ended 30 December 2012

Results and dividends

The profit for the period amounted to £35,583,837 (Period ended 1 January 2012 £32,070,805) The directors do not recommend the payment of an ordinary dividend (Period ended 1 January 2012 £nil)

Principal activity, review of the business and future developments

The principal activity of the company during the period was the development and commercialisation of novel techniques for the analysis of DNA

The company is entitled to a 25% royalty on net group sales of sequencing instruments and reagents originating from the US, and a 16.8% royalty on net group sales of sequencing instruments and reagents originating from Singapore, for the use of Illumina Cambridge Limited intellectual property (IP)

The company continues to invest in research and development and the directors regard investment in this area as a prerequisite for continued success in the medium to long-term future

The directors are satisfied with the results for the period and are confident that future developments will generate satisfactory results, and that future growth is expected in the business, due to innovative technologies and continued new products releases. The majority of revenue is from royalties linked to worldwide sequencing sales, and there has continued to be significant growth in the sale of Illumina sequencing products in all regions of the world, especially the HiSeq and MiSeq instruments

The company's financial performance is assessed primarily by royalty income and expenditure on research and development

	Period ended 30 Dec 2012 £'000	Period ended 1 Jan 2012 £'000	Change %
Royalty income	101,583	95,136	6.8
Research & development expenditure	82,468	62,130	32.7
Profit for the period	35,584	32,071	11.0
	No	No	Change %
Headcount at year end	136	152	(10.5)

Royalty income increased by almost 7% over the prior period reflecting the continued commercial success of the company's sequencing products

Research and development expenditure has increased by 32.7%. There has been a continuation of the development of the company's sequencing technology however, due mainly to the consumables manufacturing being moved to the US by the end of 2012, the headcount has decreased by 11%

On 7 June 2013, the company undertook a capital reduction whereby the share premium account was reduced by £22,329,961 and transferred to the profit and loss account reserves

Directors' report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the company are as follows

- **Competitive risks**

The company operates in a competitive environment and other companies may market products more successfully. However there has been continued investment in our marketing and sales teams so that the company is able to compete with the competition.

- **Product development risks**

The company's products may have reduced life cycles because of the development of competitive technologies / products. The company's continued success relies on the development of new products. Illumina aims to produce solutions that are innovative and to continue to launch successful new products in the future. Illumina continues to invest heavily in research and development in order to do this.

- **Employment risks**

The company's technology is diverse but specialised, and the company's success will depend on its ability to attract and retain staff with the relevant experience in a particular discipline. Stock options and RSU awards vesting over a number of years aim to minimize this retention risk.

- **Foreign exchange risk**

The directors acknowledge that there exists a foreign exchange risk at a local entity level. Foreign exchange risk for the group is managed at group level.

- **Cash flow and liquidity risk**

Cash flow for the company is managed at group level. Cash is transferred to the company from group as and when required. However Illumina Cambridge shows a large net current asset position at year-end.

Research and development

Expenditure on research and development during the period amounted to £82,467,773 (Period ended 1 January 2012 £62,130,211), all of which has been expensed in the profit and loss account.

Going Concern

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence and meet its liabilities as they fall due for the foreseeable future, being at least 12 months from the date of approval of the financial statements. During the period the company made a profit of £35,583,837 (Period ended 1 January 2012 profit £32,070,805), and had net assets at 30 December 2012 of £77,532,835 (1 January 2012 net assets of £42,443,146).

Directors

The directors who served during the period and to the date of this report, except as stated otherwise, were as follows

J Flatley

C Henry

M Stapley (appointed 8 May 2012)

T Orpin (appointed 14 March 2013)

Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' report (continued)

Statement as to disclosure of information to auditor

The directors, who were members of the board at the time of approving this report, are listed on page 1. Having made enquiries of company management and of the company's auditor, the directors confirm that

- to the best of their knowledge and belief, there is no information relevant to the preparation of this report of which the company's auditor is unaware, and
- they have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information

Auditor

Ernst & Young LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an AGM

By order of the board


T Orpin
Director

26 September 2013

Statement of directors' responsibilities in respect of the financial statements

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 period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, 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 proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Illumina Cambridge Limited

We have audited the company's financial statements for the period ended 30 December 2012 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 set out on page 5, 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). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 December 2012 and of the company's profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report (continued)
to the members of Illumina Cambridge Limited

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 company, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

Ernst & Young LLP

Rachel Wilden (Statutory Senior Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge, UK

30 September 2013

Profit and loss account
for the period ended 30 December 2012

	Period ended 30 December 2012	<i>Period ended 1 January 2012 (Restated – see note 1)</i>
<i>Notes</i>	£	£
Turnover	2 138,160,103	112,746,421
Cost of sales	(34,409,050)	(15,396,144)
Gross profit	103,751,053	97,350,277
Administrative expenses - Research and development costs	(54,165,608)	(52,244,218)
Administrative expenses - Foreign exchange (loss)/gain	(1,102,247)	603,134
Administrative expenses - Other	(2,801,215)	(2,776,692)
Operating profit	3 45,681,983	42,932,501
Interest receivable and similar income	7 98,665	6,292
Interest payable and similar charges	8 (53,093)	(149,299)
Profit on ordinary activities before taxation	45,727,555	42,789,494
Tax on profit on ordinary activities	9 (10,143,718)	(10,718,689)
Profit for the financial period	19 35,583,837	32,070,805

All activities are continuing

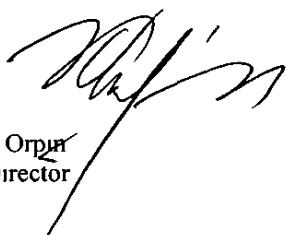
The company has no recognised gains and losses other than those included in the profit and loss account above, therefore no statement of total recognised gains and losses is presented

Balance sheet
at 30 December 2012

	<i>Notes</i>	As at 30 December 2012 £	As at 1 January 2012 £
Fixed assets			
Tangible fixed assets	10	12,725,775	13,352,915
Investments	11	22,793,771	18,162,878
		<u>35,519,546</u>	<u>31,515,793</u>
Current assets			
Stocks	12	1,051,763	3,526,726
Debtors	13	15,783,706	4,858,486
Cash at bank		46,631,694	27,247,342
		<u>63,467,163</u>	<u>35,632,554</u>
Creditors: amounts falling due within one year	14	<u>(20,984,668)</u>	<u>(24,080,833)</u>
Net current assets		42,482,495	11,551,721
Total assets less current liabilities		78,002,041	43,067,514
Provisions for liabilities	15	<u>(469,206)</u>	<u>(624,368)</u>
Net assets		<u>77,532,835</u>	<u>42,443,146</u>
 Capital and reserves			
Called up share capital	18	30,224	30,224
Share premium account	19	22,329,961	22,329,961
Profit and loss account	19	55,172,650	20,082,961
Shareholders' funds	19	<u>77,532,835</u>	<u>42,443,146</u>

These financial statements were approved by the board and authorised for issue on 26 September 2013, and signed on its behalf

T Orpin
Director



Notes to the financial statements

at 30 December 2012

1. Accounting policies

Basis of preparation

The financial statements have been prepared using the historical cost convention and in accordance with applicable UK accounting standards

The company operates on a 52 week financial period. For this year, the accounting period was from 2 January 2012 through to 30 December 2012

Restatement

To ensure consistency with the presentation adopted in the year ended 31 December 2012, expenditure amounting to £9,885,993, which had previously been classified as administrative expenses – research and development costs in the year ended 31 December 2011, have been restated within cost of sales to reflect that the costs are recharged to Illumina Singapore Pte Ltd and therefore more appropriately reflect the nature of the costs

The restatement does not have any effect on the profit for the periods ended 1 January 2012 or 30 December 2012 nor on retained earnings at 3 January 2011

Cash flow statement

The company has taken advantage of the exemption in FRS 1 “Cash Flow Statements” which exempts a company from the requirement to prepare a cash flow statement on the grounds that the company is wholly owned and its ultimate parent publishes consolidated financial statements which are publicly available

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets created within the business are not capitalised and expenditure is charged to the profit and loss account in the period in which it is incurred

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable

Tangible fixed assets

Tangible fixed assets are initially recorded at cost

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on historical cost of each asset evenly over its expected useful life, as follows

Leasehold improvements	-	Over the shorter of the lease term and the estimated useful life
Laboratory equipment	-	Over 4 to 5 years
Furniture and fittings	-	Over 4 to 5 years
Computer equipment	-	Over 3 to 4 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be reasonable

Assets under construction are recorded at cost and depreciated when the asset is brought into use

Investments

Investments are stated at cost less any provision for impairment

Notes to the financial statements (continued) at 30 December 2012

1. Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials the FIFO cost method is used. For work in progress and finished goods, cost is taken as production cost including direct labour and an apportionment of overhead.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Rendering of services

Revenue from the analysis of customer samples, is recognised after the results of those analyses are delivered to the customer.

Royalty revenue

Intercompany royalty revenue on sequencing product sales is recognised on net group sales to third parties.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Research and development services

Revenue from research and development services is recognised as the services are provided.

Government grants

Government grants of a revenue nature are credited to the profit and loss account so as to match them with the expenditure to which they relate.

Research and development

Research and development expenditure, including patent costs, is written off to the profit and loss account in the period in which it is incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements (continued) at 30 December 2012

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and monetary liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet and the gains or losses are included in the profit and loss account.

Share based payments

Employees of the company are granted share options and restricted stock units in the ultimate parent undertaking, Illumina, Inc. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by means of an appropriate pricing model.

No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account with a corresponding entry in equity. The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Lease arrangements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Notes to the financial statements (continued)

at 30 December 2012

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to group companies. Turnover is attributable to service revenue from the use of the NMR machine, reagent kit components supplied to Illumina, Inc and Illumina Singapore Pte Ltd. and royalty payments due from Illumina, Inc and Illumina Singapore Pte Ltd. It also includes a recharge from Illumina Singapore Pte Ltd to fund research and development.

An analysis of turnover by geographical market is given below

	Period ended 30 December 2012 £	<i>Period ended</i> <i>1 January</i> <i>2012</i> £
United Kingdom	196,132	530,292
USA	89,470,451	97,814,030
Singapore	48,493,520	14,402,099
	<u>138,160,103</u>	<u>112,746,421</u>

USA sales include £82,797,803 (Period ended 1 January 2012 £91,387,072) of royalty income from Illumina, Inc on the sale of the company's products to third parties.

Singapore sales represents £48,493,520 (Period ended 1 January 2012 £14,402,099) from Illumina Singapore Pte Ltd. During the period Illumina Singapore Pte Ltd paid the company to fund research and development spend amounting to £28,302,165 (Period ended 1 January 2012 £9,885,993). Illumina Cambridge Limited granted Illumina Singapore Pte Ltd a non-exclusive license of the rights to manufacture products using certain sequencing IP and to sell the products that it manufactures. As consideration for the right to benefit from sequencing IP, the company is entitled to a royalty on sales made by Illumina Singapore Pte Ltd, which in the period amounted to £18,785,675 (Period ended 1 January 2012 £3,748,945).

	Period ended 30 December 2012 £	<i>Period ended</i> <i>1 January</i> <i>2012</i> £
Royalty income	101,583,478	95,136,017
Reagent sales	6,717,574	6,061,166
Service revenue	1,546,996	1,659,110
Research and development services	28,302,165	9,885,993
Grant revenue	9,890	4,135
	<u>138,160,103</u>	<u>112,746,421</u>

Notes to the financial statements (continued)
at 30 December 2012

3. Operating profit

This is stated after charging/(crediting)

	Period ended 30 December 2012 £	<i>Period ended</i> <i>1 January</i> 2012 £
Net foreign exchange losses/(gains)	<u>1,102,247</u>	<u>(603,134)</u>
Auditor's remuneration		
- Audit of the financial statements for the company	32,482	33,344
- Other assurance services	<u>1,050</u>	<u>1,059</u>
Depreciation of owned tangible fixed assets	<u>2,621,149</u>	<u>2,676,731</u>
Amortisation of intangible fixed assets	<u>-</u>	<u>53,087</u>
Government grant income	<u>9,890</u>	<u>4,134</u>
Research and development expenditure		
- Included in cost of sales and recharged to Illumina Singapore Pte Ltd	28,302,165	9,885,993
- Included in administrative expenses	<u>54,165,608</u>	<u>52,244,218</u>
Total research and development expenditure	<u>82,467,773</u>	<u>62,130,211</u>
Operating lease rentals - land and buildings	813,515	754,692
- plant and machinery	<u>12,808</u>	<u>13,257</u>

4. Staff costs

	Period ended 30 December 2012 £	<i>Period ended</i> <i>1 January</i> 2012 £
Wages and salaries	9,307,673	10,247,377
Social security costs	859,360	820,779
Other pension costs	<u>601,281</u>	<u>619,429</u>
	<u>10,768,314</u>	<u>11,687,585</u>

Wages and salaries include equity settled share based payments of £2,470,164 (Period ended 1 January 2012 £3,425,519)

The monthly average number of employees, excluding directors, during the period was as follows

	Period ended 30 December 2012 No	<i>Period ended</i> <i>2 January</i> 2012 No
Administrative staff	27	29
Manufacturing	7	11
Research and development	<u>102</u>	<u>112</u>
	<u>136</u>	<u>152</u>

Notes to the financial statements (continued)
at 30 December 2012

5. Directors' emoluments

	Period ended 30 December 2012 £	<i>Period ended</i> <i>1 January</i> <i>2012</i> £
Directors' emoluments paid by the company	-	-
Company contributions to money purchase pension schemes	-	-

All of the directors of the company are also directors of the holding company and fellow subsidiaries. These directors received total basic remuneration for the year of £2,238,345 (Period ended 1 January 2012 £1,280,208), plus company pension contributions of £13,718 (Period ended 1 January 2012 £8,769), all of which was paid by the ultimate holding company. The aggregate emoluments of the highest paid director was £1,170,939 (Period ended 1 January 2012 £889,940) and company pension contributions of £4,707 (Period ended 1 January 2012 £4,573) were made to a money purchase scheme on his behalf. All these amounts were paid by the holding company. The highest paid director did receive shares (RSU's) and exercise share options, in both the current and prior year. The directors do not believe that it is practicable to apportion these amounts between their qualifying services as directors of the company and their services as directors of other group undertakings.

Number of directors accruing benefits under money purchase schemes	3	2
Number of directors who received shares (RSU's) for qualifying services	3	2
Number of directors who exercised share options	2	2

6. Share based payments

Employees are granted share options and restricted stock units (RSU's) in the ultimate parent company Illumina, Inc. Options and RSU's vest over 4 years from the date of grant.

Options granted to new employees have a 1 year cliff where 25% of the grant vests on the anniversary of the start date, with the remainder vesting over 3 years on a straight line monthly basis. Subsequent awards vest over 4 years on a straight line monthly basis. Options must be exercised within 10 years of the grant date otherwise they expire.

RSU's generally vest in 4 instalments on each of the first four anniversaries of the date of grant in the proportions 25%, 25%, 25% and 25% (Period ended 1 January 2012 15%, 20%, 30%, 35%).

Options and RSU's are equity settled, and there are no other vesting conditions.

Notes to the financial statements (continued)
at 30 December 2012

6. Share based payments (continued)

The charge to the profit and loss account in accordance with FRS 20 is set out below

	Period ended 30 December 2012 £	<i>Period ended 1 January 2012 £</i>
Profit and Loss Account		
Increase in administrative expenses	<u>2,470,164</u>	<u>3,425,519</u>

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options in the period

	Period ended 30 December 2012 No	Period ended 30 December 2012 WAEP	<i>Period ended 1 January 2012 No</i>	<i>Period ended 1 January 2012 WAEP</i>
Outstanding as at the beginning of the period ¹	406,249	\$24 62	491,268	\$20 95
Granted during period	-	-	30,300	\$69 34
Lapsed during period	(8,089)	\$24 59	(494)	\$21 78
Exercised during period	(152,490)	\$20 42	(113,142)	\$19 88
Transfers out to other group companies	-	-	(1,683)	\$13 64
Outstanding at the end of the period	<u>245,670</u>	<u>\$27 23</u>	<u>406,249</u>	<u>\$20 95</u>
Exercisable at end of period	221,051	\$23 76	321,141	\$17 81

¹ Included within this balance are options on nil (Period ended 1 January 2012 4,393) shares that have not been recognised in accordance with FRS 20 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20.

The range of exercise prices for options outstanding at the period end was \$1 86 - \$69 34 (As at 1 January 2012 \$1 86 - \$69 34)

The weighted average expected life of options outstanding at the period end is 4.33 years (As at 1 January 2012 5.6 years)

The weighted average share price at the date of exercise for those options exercised during the period was \$50 06 (Period ended 1 January 2012 \$19 88)

Notes to the financial statements (continued)
at 30 December 2012

6. Share based payments (continued)

The fair value of share options is calculated using the Black-Scholes option pricing model. The weighted average assumptions used to estimate the fair value of share options were as follows:

	<i>Period ended 1 January 2012</i>
Fair value of common stock	\$69.34
Fair value of stock options granted	\$29.27
Risk-free interest rate	0.85%
Expected life (in years)	5.54
Expected volatility	52.97%
Expected dividend yield	0%

Restricted Stock Units

During the period, Illumina, Inc., the ultimate parent of the company, granted restricted stock units (RSU's) to certain employees representing a right to receive, in the aggregate, 103,431 (Period ended 1 January 2012: 96,566) shares of its common stock. The weighted average fair value of the RSU's at the date of grant was \$49.17 (Period ended 2 January 2011: \$35.15).

The following table illustrates the number and weighted average market value at date of grant (WAMV) of, and movements in, restricted stock units in the period:

	Period ended 30 December 2012 No	Period ended 30 December 2012 WAMV	<i>Period ended 1 January 2012 No</i>	<i>Period ended 1 January 2012 WAMV</i>
Outstanding as at the beginning of the period	236,809	\$40.25	215,131	\$40.19
Granted during period	103,431	\$49.17	96,566	\$35.15
Lapsed	(15,698)	\$44.70	(5,941)	\$43.29
Vested during period	(73,540)	\$37.66	(63,725)	\$35.11
Transfers out to other group companies	(5,707)	\$54.40	(5,222)	\$16.92
Outstanding at the end of the period	<u>245,295</u>	<u>\$45.16</u>	<u>236,809</u>	<u>\$40.25</u>

Market value at date of grant was used to calculate the fair value of the restricted shares in the period and the preceding period.

Notes to the financial statements (continued)
at 30 December 2012

6. Share based payments (continued)

Employee Stock Purchase Plan

Employees are able to save up to 15% of their gross salary and purchase shares in Illumina, Inc at a discount

The following table illustrates the number and weighted average market value at the date of grant (WAMV) of employee stock purchase plan shares in the period

	Period ended 30 December 2012 No	Period ended 30 December 2012 WAMV	<i>Period ended 1 January 2012 No</i>	<i>Period ended 1 January 2012 WAMV</i>
Granted during period	20,004	\$46 58	20,094	\$66 48

Market value at date of purchase was used to calculate the fair value of the restricted shares in the period and the preceding period

7. Interest receivable and similar income

	Period ended 30 December 2012 £	<i>Period ended 1 January 2012 £</i>
Net foreign exchange gains on intercompany loan	10,393	2,927
Interest received on treasury deposits	88,272	3,365
	<u>98,665</u>	<u>6,292</u>

8. Interest payable and similar charges

	Period ended 30 December 2012 £	<i>Period ended 1 January 2012 £</i>
Interest payable on intercompany loan balances	48,659	147,594
Other interest payable	4,434	1,705
	<u>53,093</u>	<u>149,299</u>

Notes to the financial statements (continued)

at 30 December 2012

9. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	Period ended 30 December 2012 £	Period ended 1 January 2012 £
<i>Current tax</i>		
UK corporation tax at 24.5% (Period ended 1 January 2012 26.5%)	10,296,972	5,495,508
Adjustment in respect of previous periods	6,293	–
Foreign tax (relief)	(4,385)	–
Total current tax (note 9 (b))	<u>10,298,880</u>	<u>5,495,508</u>
<i>Deferred taxation</i>		
Origination and reversal of timing differences	(105,084)	4,947,340
Adjustment in respect of previous periods	(7,121)	231,141
Effect of changes in tax rates	(42,957)	44,700
Total Deferred tax	<u>(155,162)</u>	<u>5,223,181</u>
Tax on profit on ordinary activities	<u>10,143,718</u>	<u>10,718,689</u>

(b) Factors affecting current tax charge

The differences are reconciled below

	Period ended 30 December 2012 £	Period ended 1 January 2012 £
Profit on ordinary activities before tax	<u>45,727,555</u>	<u>42,789,494</u>
Profit on ordinary activities multiplied by the standard rate (composite) of tax of 24.5% (Period ended 1 January 2012 26.5%)	11,202,002	11,336,285
Effect of		
Expenses not deductible for tax purposes	749,273	176,939
Permanent differences on share based payments	(1,042,442)	(473,577)
Capital allowances in arrears of depreciation	89,109	18,772
Other timing differences	13,936	(554,294)
Utilisation of tax losses	(46,904)	(4,239,354)
Adjustments to tax charge in respect of previous periods	6,293	–
Foreign tax (relief)	(4,385)	–
Enhanced R&D deduction	(668,002)	(769,263)
Total current tax (note 9(a))	<u>10,298,880</u>	<u>5,495,508</u>

Notes to the financial statements (continued)
at 30 December 2012

9. Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges

The main rate of UK corporation tax was reduced from 26% to 24% from 1 April 2012. The Finance Act 2012, enacted in July 2012, reduced further the UK main rate of corporation tax to 23% from 1 April 2013. Deferred tax has been restated accordingly in these financial statements.

Additional changes to the main rate of UK corporation tax announced in the 20 March 2013 budget will reduce the main rate to 20% by 1 April 2015. These changes had not been substantively enacted at the balance sheet date and consequently their effects are not included in these financial statements. The effect of these reductions will reduce the deferred tax liability by £61,200.

The above changes to the rate of corporation tax will impact the amount of future cash tax payments to be made by the company.

(d) Deferred tax liability

	£
At 1 January 2012 (note 15)	624,368
Credit to profit and loss account (note 9 (a))	(155,162)
At 30 December 2012 (note 15)	<u>469,206</u>

The elements of the deferred tax liability that has been provided for, are as follows

	As at 30 December 2012 £	As at 1 January 2012 £
Capital allowances in advance of depreciation	1,396,466	1,615,957
Short term timing differences	(15,523)	(2,650)
Share based payments	(911,737)	(988,939)
Deferred tax liability	<u>469,206</u>	<u>624,368</u>

Notes to the financial statements (continued)
at 30 December 2012

10. Tangible fixed assets

	Leasehold improvements £	Assets under construction £	Laboratory equipment £	Furniture and fixtures £	Computer equipment £	Total £
Cost or valuation						
At the beginning of the period	11,531,770	–	6,319,339	355,369	3,451,508	21,657,986
Additions	258,479	2,535	857,519	130,229	470,177	1,718,939
Disposals	–	–	(100,935)	–	–	(100,935)
Transfers*	–	–	228,833	(472)	–	228,361
At the end of the period	<u>11,790,249</u>	<u>2,535</u>	<u>7,304,756</u>	<u>485,126</u>	<u>3,921,685</u>	<u>23,504,351</u>
Depreciation						
At the beginning of the period	1,984,736	–	3,737,115	129,909	2,453,311	8,305,071
Provided during the period	747,858	–	1,353,314	49,682	470,295	2,621,149
Disposals	–	–	(93,190)	–	–	(93,190)
Transfers*	–	–	(54,195)	(259)	–	(54,454)
At the end of the period	<u>2,732,594</u>	<u>–</u>	<u>4,943,044</u>	<u>179,332</u>	<u>2,923,606</u>	<u>10,778,576</u>
Net book value						
At the end of the period	<u>9,057,655</u>	<u>2,535</u>	<u>2,361,712</u>	<u>305,794</u>	<u>998,079</u>	<u>12,725,775</u>
At the beginning of the period	<u>9,547,034</u>	<u>–</u>	<u>2,582,224</u>	<u>225,460</u>	<u>998,197</u>	<u>13,352,915</u>

*Transfers from/(to) other group undertakings

11. Investments

	Trade investment £
Cost and net book value at the beginning of the period	18,162,878
Additions	4,630,893
Cost and net book value at the end of the period	<u>22,793,771</u>

During the period the company made an additional equity investment of £4,630,893 in Oxford Nanopore Technologies Ltd, which has been classified as a trade investment

Notes to the financial statements (continued)
at 30 December 2012

12. Stocks

	As at 30 December 2012 £	<i>As at 1 January 2012 £</i>
Raw materials	427,485	1,203,008
Work in progress	543,238	2,312,960
Finished goods	81,040	10,758
	<u>1,051,763</u>	<u>3,526,726</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material

13. Debtors

	As at 30 December 2012 £	<i>As at 1 January 2012 £</i>
Amounts owed by group undertakings	15,093,777	4,197,794
Other debtors	225,972	185,455
Prepayments and accrued income	463,957	475,237
	<u>15,783,706</u>	<u>4,858,486</u>

14. Creditors: amounts falling due within one year

	As at 30 December 2012 £	<i>As at 1 January 2012 £</i>
Trade creditors	824,850	363,763
Amounts owed to group undertakings	13,231,150	275,125
Corporation tax payable	3,584,388	2,085,508
Pension creditor (note 16)	67,491	78,103
Accruals and deferred revenue	3,276,789	21,278,334
	<u>20,984,668</u>	<u>24,080,833</u>

15. Provision for liabilities

	<i>Deferred tax £</i>
At 1 January 2012	624,368
Credit to profit and loss account (note 9 (a))	(155,162)
At 30 December 2012	<u>469,206</u>

Notes to the financial statements (continued)
at 30 December 2012

16. Pensions

The company operates a Group Personal Pension Plan with defined contributions, managed by The Prudential for all its directors and employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The charge to the profit and loss account in the year amounted to £601,281 (period ended 1 January 2012 £619,428). Contributions outstanding at the period end were £67,491 (As at 1 January 2012 £78,103).

17. Commitments under operating leases

At 30 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	As at 30 December 2012 £	Other <i>As at 1 January 2012</i> £	Land and buildings As at 30 December 2012 £	<i>As at 1 January 2012</i> £
Operating leases which expire				
Within one year	7,202	5,200	-	-
Within two to five years	2,672	8,045	-	-
After five years	-	-	1,105,000	830,000
	<u>9,874</u>	<u>13,245</u>	<u>1,105,000</u>	<u>830,000</u>

18. Share capital

	No	As at 30 December 2012 £	No	<i>Allotted and called up As at 1 January 2012</i> £
Ordinary shares of £0.0025 each	12,089,515	30,224	12,089,515	30,224
		<u>12,089,515</u>	<u>12,089,515</u>	<u>30,224</u>

Notes to the financial statements (continued)

at 30 December 2012

19. Reconciliation of shareholders' funds and movements on reserves

	Share capital £	Share premium account £	Profit and loss account £	Total share- holders' funds £
At 2 January 2011	30,224	22,329,961	(12,615,825)	9,744,360
Profit for the period	–	–	32,070,805	32,070,805
Share based payments				
Group charge*	–	–	(2,797,538)	(2,797,538)
FRS20**	–	–	3,425,519	3,425,519
At 1 January 2012	30,224	22,329,961	20,082,961	42,443,146
Profit for the period	–	–	35,583,837	35,583,837
Share based payments				
Group charge*	–	–	(2,964,312)	(2,964,312)
FRS20**	–	–	2,470,164	2,470,164
At 30 December 2012	30,224	22,329,961	55,172,650	77,532,835

* Payment to group for share based payments

** Credit to equity for share based payments

On 7 June 2013, the company undertook a capital reduction whereby the share premium account was reduced by £22,329,961 and transferred to the profit and loss account reserves

20. Ultimate parent undertaking and related party transactions

During the period the company's ultimate and immediate parent undertaking and controlling party was Illumina, Inc, a company registered in the USA. Copies of its group accounts, which include the company, are available from Illumina, Inc, 5200 Illumina Way, San Diego, CA 92122, USA

As the company is a wholly owned subsidiary of Illumina, Inc, the group financial statements of which are publically available, the company has taken advantage of the exemption in FRS 8 'Related party disclosures' from disclosing transactions with wholly owned members of the Illumina, Inc group