

Company Registration No. 03625145

ILLUMINA CAMBRIDGE LIMITED

Annual Report and Financial Statements

30 December 2018



REPORT AND FINANCIAL STATEMENTS

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REPORT AND FINANCIAL STATEMENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Nel
P Dowdy
R Edwards

SECRETARY

C Dadswell

REGISTERED OFFICE

Illumina Centre
19 Granta Park
Great Abington
Cambridge
Cambridgeshire
CB21 6DF

BANKERS

Bank of America
5 Canada Square
London
E14 5AQ

AUDITOR

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

STRATEGIC REPORT

The directors present their strategic report for the period ended 30 December 2018.

PRINCIPAL ACTIVITY

The principal activities of the company during the period were:

- The development and commercialisation of novel techniques for the analysis of DNA, as one of the principal Research and Development centres for the worldwide Illumina, Inc. group (“the Illumina group”); and
- The manufacture and sale of the group’s instruments and consumables for the large scale analysis of genetic variation to customers and other group customers.

The Intellectual Property generated through this R&D activity underpins the market leading position of Illumina group’s sequencing instruments. Accordingly, the company is entitled to a royalty for the use of its intellectual property.

The company manufactures and sells Illumina, Inc. instruments and consumables for the large scale analysis of genetic variation to customers in the UK and to other group entities. The company also achieves revenue through the sale of separable warranty contracts and other servicing related activity of those instruments sold to customers in the UK.

The Illumina group has developed a comprehensive line of products that address the scale of experimentation and the breadth of functional analysis required to advance disease research, drug development and the development of molecular tests.

The Illumina group’s broad portfolio of leading-edge sequencing and array-based solutions address a range of genomic complexity and throughputs, enabling researchers to select the best solution for the scientific challenge. The Illumina group’s products and services are used by a broad range of academic, government, pharmaceutical, biotechnology, and other leading institutions around the globe.

REVIEW OF BUSINESS

The company’s financial performance is assessed primarily by royalty income, third party and intra-group product sales, expenditure on research and development and headcount.

	Period ended 30 December 2018 \$’000	Period ended 31 December 2017 \$’000	Change %
Royalty revenue	264,129	128,002	106
Third party sales	191,600	119,427	60
Intra-group sales	2,009,052	1,847,419	9
Research & development expenditure (net of R&D credit)	486,763	436,815	11
Profit for the period	915,978	422,140	117
	Number	Number	Change
Average headcount	524	428	96

Royalty income has increased in the year mainly due to change on the rate applied from 12% to 26.40% in 2018.

Third party sales increased by 60% and intragroup sales increased by 9% in 2018. The main contributors to the increase in third-party sales are NovaSeq, NextSeq and to sequencing services. These represent 97% of the increase compare to 2017.

STRATEGIC REPORT (continued)**REVIEW OF BUSINESS (continued)**

The sequencing services represent 30% of total third-party sales in 2018 (18% in 2017), the increase is mainly driven by 100,000 Genome Project that was completed in December 2018. The sales of the Novaseq family represent 17% of total third-party sales in 2018 (3% in 2017); the increase was expected following the launch announcement in January 2017.

The intra-group sales increase is mainly driven by consumables.

Research and development expenditure (net of R&D tax credit) has increased by 11% in the period due to the amendment of the Technology License Agreement that the company maintained with Illumina Singapore LTD. In 2019, 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 product releases. The majority of revenue is from intra-group sales, and there has continued to be significant growth in the sale of Illumina group sequencing products in all regions of the world.

The increase in performance and expenditure in research and development is supported by the growth in headcount in that area which has increased by 33 in the year.

PRINCIPLE RISKS AND UNCERTAINTIES

The directors consider that the following are the principal risks and uncertainties which the company faces:

Credit risks

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the company's debtors are shown in note 14 to the financial statements. Customer credit limits and outstanding balances are reviewed regularly.

Competitive risks

The company operates in a competitive environment and other companies may market products more successfully. However, there has been continued investment in the company's marketing and sales teams so that the company is able to maintain market position 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. The company aims to produce solutions that are innovative and to continue to launch successful new products in the future, and continues to invest heavily in research and development in order to do this.

Employment risk

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 minimise this retention risk.

STRATEGIC REPORT (continued)

PRINCIPLE RISKS AND UNCERTAINTIES (continued)

Foreign exchange risk

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

Cash flow risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company does not currently use financial derivatives to hedge this risk.

Liquidity risk

To maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the company maintains cash balances.



R Edwards

Director

Date: 19/09/2019

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report for the 52 weeks ended 30 December 2018.

DIRECTORS

The directors, who served throughout the period and to the date of this report, unless stated otherwise, were as follow:

A Nel
P Dowdy
R McGrath (appointed 13 April 2017, resigned 22 January 2018)
M Van Oene (appointed 14 September 2017, resigned 8 October 2018)
R Edwards (appointed 8 October 2018)

DIVIDENDS

The directors paid total dividends in the period of \$1,350 million (2017: \$110 million).

FUTURE DEVELOPMENTS

The directors do not currently anticipate any material changes to the nature of company's activities in the foreseeable future.

GOING CONCERN

The directors have prepared an assessment of the going concern of the company based on available resources, both cash and tangible assets, to sustain the company's activities for a period of at least 12 months from the approval of these financial statements.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

On 21st June 2019 the Company received an interim dividend from Illumina Singapore Pte for \$100 million and on 26th June 2019 the Company paid a dividend of \$250 million to Illumina Inc.

On 28th July 2019, the company acquired certain assets and liabilities from Bluegnome Limited for a consideration of \$607,468.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

EMPLOYEE INVOLVEMENT

During the period, the policy of providing employees with information about the Illumina group and performance has continued through monthly company meetings. Employee surveys were undertaken throughout the year for employees to provide their feedback on the group's performance as a whole. Employees are encouraged to invest in the Illumina group through participation in the employee share purchase plan.

DIRECTORS' REPORT (continued)

DIRECTORS' INDEMNITIES

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report.

DISCLOSURE OF INFORMATION TO THE AUDITOR

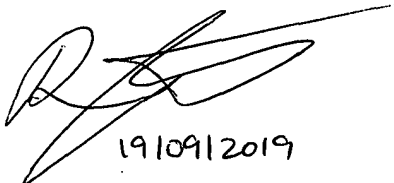
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Each director has taken all the steps relevant that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

RE-APPOINTMENT OF AUDITOR

Ernst & Young LLP have expressed their willingness to continue in office as auditor and, in accordance with s.485 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

Approved by the Board and signed on its behalf by:

R Edwards
Director
Date:



19/09/2019

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'. 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 or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Opinion

We have audited the financial statements of Illumina Cambridge Limited for the period ended 30 December 2018 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, and the related notes 1 to 24, including a summary of significant accounting policies. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 December 2018 and of its profit for the year 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.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ILLUMINA CAMBRIDGE LIMITED (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ILLUMINA CAMBRIDGE LIMITED
(continued)**

Use of our report

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



Nick Gomer (Statutory Senior Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

Cambridge, UK

20 September 2019

INCOME STATEMENT

for the period ended 30 December 2018

		Period ended 30 December 2018	Period ended 31 December 2017
	Notes	\$'000	\$'000
Turnover	2	2,464,781	2,144,848
Cost of sales		(1,530,754)	(1,643,941)
Gross profit		934,027	500,907
Research and development costs		(461,519)	(199,198)
Net foreign exchange gain/(loss)		(1,962)	4,704
Other administrative expenses		(67,881)	(49,404)
Other operating expenses		(385)	(1,551)
Operating profit		402,280	255,458
Impairment of investment	12	-	(51,287)
Income from investments	12	560,000	250,000
Interest receivable and similar income	4	5,245	2,052
Interest payable and similar charges	5	(19)	(29)
Profit on ordinary activities before taxation	3	967,506	456,194
Tax on profit on ordinary activities	8	(51,528)	(34,054)
Profit for the financial period		915,978	422,140

All activities in both the current period and preceding period derive from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

for the period ended 30 December 2018

	Period ended 30 December 2018	Period ended 31 December 2017
Profit for the financial period	915,978	422,140
Total comprehensive income for the period	915,978	422,140

STATEMENT OF CHANGES IN EQUITY

for the period ended 30 December 2018

	Called-up share capital \$'000	Share premium account \$'000	Profit and loss account \$'000	Total equity \$'000
At 1 January 2017	59	18,985	612,501	631,545
Profit for the period	-	-	422,140	422,140
Total comprehensive income for the period	-	-	422,140	422,140
Share based payment recharge by group	-	-	(10,102)	(10,102)
Share based payment expense	-	-	10,832	10,832
Dividends paid in the period	-	-	(110,000)	(110,000)
At 31 December 2017	59	18,985	925,371	944,415
Profit for the period	-	-	915,978	915,978
Total comprehensive income for the period	-	-	915,978	915,978
Share based payment recharge by group	-	-	(12,598)	(12,598)
Share based payment expense	-	-	14,239	14,239
Dividends paid in the period	-	-	(1,350,000)	(1,350,000)
At 30 December 2018	59	18,985	492,990	512,034

STATEMENT OF FINANCIAL POSITION

As at 30 December 2018

	Notes	30 December 2018 \$'000	31 December 2017 \$'000
FIXED ASSETS			
Investments	12	39,940	39,937
Intangible assets	10	-	4,817
Tangible assets	11	61,618	40,843
		<u>101,558</u>	<u>85,597</u>
CURRENT ASSETS			
Stocks	13	378,002	325,083
Debtors	14	208,707	166,179
Cash and cash equivalents		89,821	398,212
Short term investments – treasury deposits		-	195,422
		<u>676,530</u>	<u>1,084,896</u>
CREDITORS: amounts falling due within one year	15	<u>(242,308)</u>	<u>(207,345)</u>
NET CURRENT ASSETS		<u>434,222</u>	<u>877,551</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>535,780</u>	<u>963,148</u>
CREDITORS: amounts falling due after more than one year			
PROVISIONS FOR LIABILITIES	16	(10,938)	(5,498)
	17	(12,808)	(13,235)
NET ASSETS		<u>512,034</u>	<u>944,415</u>
CAPITAL AND RESERVES			
Called-up share capital	19	59	59
Share premium account	20	18,985	18,985
Profit and loss account		492,990	925,371
SHAREHOLDERS' FUNDS		<u>512,034</u>	<u>944,415</u>

The financial statement of Illumina Cambridge Limited were approved by the board of directors and authorised for issue on 19 September 2019.

They were signed on its behalf by:

R Edwards

Director



NOTES TO THE FINANCIAL STATEMENTS**52 weeks ended 30 December 2018****1. ACCOUNTING PRINCIPLES****Legal form of the entity**

Illumina Cambridge Limited is a limited liability company incorporated in England. The registered office is Illumina Centre, 19 Granta Park, Great Abington, Cambridge, Cambridgeshire CB21 6DF.

Statement of compliance

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the period ended 30 December 2018.

Basis of preparation and change in accounting policy

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

Going concern

The directors have prepared an assessment of the going concern of the Company based on available resources, both cash and tangible assets, to sustain the Company's activities for a period of at least 12 months from the approval of these financial statements.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Disclosure exemptions

Under Financial Reporting Standard 102, the Company is exempt from several disclosures as a qualifying entity since it is included in the consolidated financial statements of Illumina, Inc. whose financial statements are publicly available. The following disclosure exemptions have been taken by the Company:

- Statement of cash flow for the reporting period
- Disclosures in relation to the fair value of financial liabilities and financial assets
- Weighted average exercise price of share options
- Information input into the fair value model of equity instruments
- Key management personnel compensation
- Reconciliation of the number of share based awards outstanding at the beginning and end of the period

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING PRINCIPLES (continued)

Impairment of inventory

Due to the nature of the inventory there is a risk that inventory may be impaired. An estimation for the impairment of inventory held at the year-end is undertaken, considering factors such as slow-moving, obsolete and excess stock based on product life cycles, quality issues, historical experience and usage forecasts.

Warranty provision

A provision for warranty expense is based on management's historical experience as well as anticipated product performance. The Company periodically reviews the warranty provision for adequacy and adjusts, if necessary, based on actual experience and estimated costs to be incurred.

Accounting policies

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences which are differences between taxable profit and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the finance statements except that:

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as 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 at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Intangible assets - licences

Licences are included at cost and amortised in equal annual instalments over a period of 3-4 years according to their estimated useful economic life. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, except for assets in the course of construction, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	term of lease
Plant and machinery	2-5 years
Office equipment	2-3 years

Assets in the course of construction are not depreciated.

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. ACCOUNTING PRINCIPLES (continued)****Turnover**

Turnover 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 instruments and consumables

Turnover from the sale of instruments and consumables is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer, usually on delivery of the goods.

Product warranty and service related income

The Company sells contracts that require a warranty service to be provided over a period of time, often a number of years. The revenue is recognised on a straight-line basis over the contract term. In addition, the Company receives income for ad-hoc servicing and repair of machines that are not covered by warranty. These revenues are recognised as the service or repair is performed.

Royalty revenue

Royalty revenue receivable from other group undertakings on sequencing product sales is recognised on net Illumina, Inc. group sales to third parties.

Interest income

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

Research and development services

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

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Warranty provision

The Company provides a one-year warranty on instruments. Additionally, the Company provides a warranty on consumables through the expiration date which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognised, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at an effective rate on the carrying value.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. ACCOUNTING PRINCIPLES (continued)****Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payment

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

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Short term investments

The Company holds short term investments, which are investments with a maturity date of greater than three months.

2. TURNOVER

Turnover, which is stated net of value added tax, arises from the following two principal sources.

The first of these represent amounts invoiceable to other group companies. This turnover is attributable to service revenue from the use of the NMR machine, reagent kit components supplied to Illumina group companies, and royalty payments due from Illumina, Inc. and Illumina Singapore Pte. Ltd.

The second source of revenue arises from third party sales of Illumina, Inc. instruments and consumables for the large scale analysis of genetic variation to customers in the UK, together with associated revenues arising from the separable warranty contracts and other servicing related activities of those instruments.

An analysis by geographical market is given below:

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
Turnover by geographical market		
United Kingdom	191,319	120,129
Rest of Europe	599,043	452,371
North America	1,115,381	976,480
Rest of the World	559,038	595,868
	2,464,781	2,144,848

Sales to the rest of the world, contain \$26,787,000 (period ended 31 December 2017: \$239,083,000) paid by Illumina Singapore Pte. Ltd. to fund research and development spend. In a prior period, the company 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 amounts to \$264,129,000 (period ended 31 December 2017: \$128,002,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. TURNOVER (continued)**

The remaining turnover represents amounts invoiced to third parties within the UK and to other group companies outside of the UK. This is principally attributable to consumable and instrument sales within the UK. In addition the company receives revenues in relation to product warranty contracts and servicing related income of instruments sold by the Company to third parties.

An analysis of turnover by revenue stream is given below:

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
Turnover by revenue stream		
Royalty income	264,129	128,002
Reagent sales (intragroup)	1,510,806	1,213,117
Reagent sales (third party)	92,546	77,412
Instrument sales (third party)	23,902	8,968
Instrument sales (intragroup)	400,100	399,098
Product warranty revenue and service related income (third party)	75,152	33,047
Product warranty revenue and service related income (intragroup)	71,359	46,121
Research and development services (intragroup)	26,787	239,083
	2,464,781	2,144,848

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting):

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
Depreciation of owned tangible fixed assets	15,922	12,192
Amortisation of intangible fixed assets	4,817	6,423
Research and development		
- Costs incurred	461,519	199,198
- Research and development expenditure credit	(1,543)	(1,466)
- Included in cost of sales and recharged to Illumina Singapore Pte. Ltd	26,787	239,083
Operating lease rentals		
- Land and buildings	7,808	2,282
- Plant and machinery	16	25
Share based payment expense	14,239	10,832
Net loss/(gain) on foreign exchange transactions	1,962	(4,704)
Fees payable to the Company's auditor for: the audit of the Company's annual accounts	128	112

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
Interest receivable on treasury deposits	4,908	1,963
Interest receivable in amounts due from group undertakings	337	89
	<u>5,245</u>	<u>2,052</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
Interest payable on loans from other group undertakings	(19)	(29)
	<u>(19)</u>	<u>(29)</u>

6. STAFF COSTS

The aggregate remuneration comprised:

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
Wages and salaries	60,782	48,423
Social security costs	5,842	4,524
Other pension costs	3,407	2,654
	<u>70,031</u>	<u>55,601</u>

Included within wages and salaries is a total expense of share-based payments of \$14,239,292 (period ended 31 December 2017: \$10,831,586) which arises from transactions accounted for as equity settled share-based payments.

The average number of monthly employees (including executive directors) was:

	Number	Number
R&D	177	144
Sales and marketing	190	169
Administration	80	65
Manufacturing	77	50
	<u>524</u>	<u>428</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. DIRECTORS' REMUNERATION AND TRANSACTIONS

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
Directors' emoluments paid by the company	1,074	988
Company contributions to money purchase pension schemes	29	59
	Period ended 30 December 2018	Period ended 31 December 2017
	Number	Number
Number of directors accruing benefits under money purchase schemes	5	6
Number of directors who received shares (RSU's) for qualifying services	3	4
Number of directors who exercised share options	-	3

The directors of the company are also directors of other fellow group undertakings. These directors received total remuneration for their services, including amounts stated above for the period of \$1,598,701 (period ended 31 December 2017: \$1,639,687), plus company pension contributions of \$44,090 (period ended 31 December 2017: \$106,860). The aggregate emoluments of the highest paid director were \$752,433 (period ended 31 December 2017: \$777,137) and company pension contributions of \$9,814 (period ended 1 January 2017: \$38,033) were made to a money purchase scheme on his behalf. The highest paid director received shares (RSUs) for qualifying services in both the current and prior periods and exercised share options, in prior periods. The directors do not believe that it is practicable to apportion this amount between their qualifying services as directors of the company and their services as directors of other fellow group undertakings.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax on profit on ordinary activities

The tax charge comprises as follows:

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
<i>Current tax:</i>		
UK Corporation Tax at 19.00% (period ended 31 December 2017: 19.25%)	50,738	35,906
Adjustment in respect of prior periods	(1,175)	196
Foreign tax	(2,208)	(991)
Total current tax	47,355	35,111
Foreign tax suffered	2,208	991
Total current tax	49,563	36,102

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

	Period ended 30 December 2018	Period ended 31 December 2017
<i>Deferred taxation:</i>	\$'000	\$'000
Origination and reversal of timing differences	2,397	(2,348)
Adjustment in respect of prior periods	36	26
Effect of changes in tax rates	(468)	274
Total deferred tax	1,965	(2,048)
Tax on profit on ordinary activities	51,528	34,054

(b) Factors affecting the total tax charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 19.00% (period ended 1 December 2017: 19.25%). The differences are explained below:

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
Profit on ordinary activities before tax	967,506	456,194
Profit on ordinary activities multiplied by the standard rate of tax of 19.00% (period ended 31 December 2017: 19.25%)	183,826	87,817
Effect of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	165	1,358
Non-taxable income	(106,400)	(48,116)
Effect of impairment of investment	-	9,796
Effects of group relief/other relief	(125)	-
Adjustment from previous periods	(1,293)	222
Tax rate changes	(468)	274
Share options	(3,239)	(1,431)
Effect of patent box deduction	(20,608)	(15,866)
Total tax (see note 8(a))	51,858	34,054

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(c) Factors that may affect future tax charges

The standard rate of UK corporation tax reduced from 20% to 19% from 1 April 2017. The Finance Act 2016 provides for a further reduction in the corporation tax rate to 17% from 1 April 2020. As these changes were enacted at the balance sheet date deferred tax has been calculated accordingly in these financial statements. The above changes to the rate of corporate tax will impact the amount of future cash tax payments to be made by the company.

(d) Deferred tax asset/(liability)

The elements of the deferred tax asset/(liability) that has been provided for, are as follows:

	Period ended 30 December 2018	Period ended 31 December 2017
	\$'000	\$'000
At start of period	4,011	1,963
Adjustment in respect of prior periods	(36)	(26)
Deferred tax charge to income statement for the period	(1,930)	2,074
	<u>2,045</u>	<u>4,011</u>
Accelerated capital allowances	(1,951)	2,149
Share-based payments	3,935	1,815
Unpaid remuneration adjustments	8	7
Pension costs	36	33
Bad debt expense	17	7
	<u>2,045</u>	<u>4,011</u>
Deferred tax assets		
Recoverable within 12 months	3,996	1,862
Recoverable after 12 months	-	2,149
	<u>3,996</u>	<u>4,011</u>
Deferred tax liabilities		
Payable within 12 months	-	-
Payable after 12 months	(1,951)	-
	<u>(1,951)</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**9. SHARE BASED PAYMENTS**

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

Share 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. Share options must be exercised within 10 years of the grant date otherwise they expire.

RSU's typically vest in 4 instalments on each of the first four anniversaries of the date of grant in the proportions 25%, 25%, 25% and 25% (prior to 1 January 2012 the vesting schedule was: 15%, 20%, 30%, 35%) Options and RSUs are equity settled, and there are no other vesting conditions.

Employee Stock Purchase Plan

Employees are able to save up to 15% of their gross salary and then periodically use these funds to purchase shares in Illumina Inc. at a discount.

10. INTANGIBLE ASSETS

	Goodwill \$'000
Cost	
At 31 December 2017 and 30 December 2018	<u>32,114</u>
Amortisation	
At 31 December 2017	27,297
Charge for the period	<u>4,817</u>
At 30 December 2018	<u>32,114</u>
Net book value	
At 30 December 2018	<u><u>-</u></u>
At 31 December 2017	<u><u>4,817</u></u>

The goodwill arising from the acquisition of the trade and certain assets and liabilities of Illumina UK Limited is being amortised over five years as this is the period over which the directors expect the company to derive economic benefit.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. TANGIBLE FIXED ASSETS

	Building	Leasehold improvements	Assets under construction	Machinery equipment	Furniture and fixtures	Computer equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation							
At 31 December 2017	-	22,158	22,481	28,494	1,477	13,343	87,953
Additions	78	161	28,944	5,045	154	2,389	36,771
Disposals	-	(110)	-	(633)	(12)	(67)	(822)
Transfers/Adjustments	-	-	(1,457)	3,088	-	-	1,631
At 30 December 2018	78	22,209	49,968	35,994	1,619	15,665	125,533
Depreciation							
At 31 December 2017	-	(17,313)	-	(18,330)	(822)	(10,645)	(47,110)
Charge for the period	(47)	(3,562)	-	(9,382)	(151)	(2,780)	(15,922)
Disposals	-	110	-	533	12	67	722
Transfers/Adjustments	-	-	-	(1,605)	-	-	(1,605)
At 30 December 2018	(47)	(20,765)	-	(28,784)	(961)	(13,358)	(63,915)
Net book value							
At 30 December 2018	31	1,444	49,968	7,210	658	2,307	61,618
At 31 December 2017	-	4,845	22,481	10,164	655	2,698	40,843

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVESTMENTS

	Trade investments	Shares in subsidiary undertaking	Total
	\$'000	\$'000	\$'000
<i>Cost</i>			
At 31 December 2017	399	122,896	123,295
Additions	-	3	3
Disposal	-	-	-
At 30 December 2018	399	122,899	123,298
<i>Accumulated depreciation</i>			
At 31 December 2017	(399)	(82,959)	(83,358)
Impairment	-	-	-
Disposal	-	-	-
At 30 December 2018	(399)	(82,959)	(83,358)
<i>Net Book Value</i>			
At 30 December 2018	-	39,940	39,940
At 31 December 2017	-	39,937	39,937

The company owns 1% of the equity ordinary share capital of Illumina India Biotechnology Private Ltd. The principal activity of Illumina India Biotechnology Private Ltd, is the sale of Illumina, Inc. group instruments and consumables. Illumina India Biotechnology Private Ltd was incorporated on June 20th 2018 in India.

The company holds 248 shares in Desktop Genetics. Desktop Genetics manufactures software tools for genome engineering, synthetic biology and cell line engineering. Desktop Genetics is a company incorporated in the United Kingdom. The investment value was fully impaired in 2017.

The company holds 100% of the issued ordinary share capital of Illumina Singapore Pte. Ltd. The principal activity of Illumina Singapore Pte. Ltd, is the manufacturer and sale of Illumina, Inc. group instruments and consumables. Illumina Singapore Pte. Ltd, is a company incorporated in Singapore.

The company holds 100% of the issued ordinary share capital of Illumina Canada ULC. The principal activity of Illumina Canada ULC, is the sale of Illumina, Inc. group instruments and consumables. Illumina Canada ULC, is a company incorporated in Canada.

The company holds 100% of the issued ordinary share capital of BlueGnome Limited. The principal activity of BlueGnome Limited was the development and sale of a suite of molecular tests and software to support the diagnosis of genetic disorders and diseases with a focus on using these techniques to increase the success rate from IVF. BlueGnome Limited is a company incorporated in the UK.

NOTES TO THE FINANCIAL STATEMENTS (continued)**12. INVESTMENTS (continued)**

A listing of indirect investments is given as follows:

Name of Entity	Country of Incorporation
Illumina Trading (Shanghai) Co., Ltd	China
Illumina Trading (Shanghai) Co., Ltd Beijing Branch	China
Illumina Australia Pty Ltd	Australia
Illumina Hong Kong Ltd	Hong Kong
Illumina New Zealand Ltd	New Zealand
Illumina Netherlands B.V.	Netherlands
Illumina Korea Ltd	Korea
Conexio Genomics Pty Ltd	Australia
Illumina GmbH	Germany
Illumina AB	Sweden
Illumina Denmark ApS	Denmark
Illumina Productos de Espana S.L.U	Spain
Illumina France Holding SARL	France
Illumina France SARL	France
Illumina Italy Srl	Italy
Illumina Switzerland GmbH	Switzerland
Illumina Finland Oy	Finland
Illumina Norway AS	Norway
Illumina Belgium BVBA	Belgium
Illumina India Biotechnology Private Ltd	India

13. STOCKS

	30 December 2018	31 December 2017
	\$'000	\$'000
Raw materials and consumables	69,372	56,546
Work in progress	219,621	185,846
Finished goods and goods for resale	89,009	82,691
	378,002	325,083

The difference between the purchase price or production costs of stocks and their replacement cost is not material. Stocks recognised as expense in the period were \$1,488,346,223 (period ended 31 December 2017: \$1,272,250,541).

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. DEBTORS

	30 December 2018	31 December 2017
	\$'000	\$'000
Trade debtors	28,904	15,962
Amounts owed by parent company	62,631	38,017
Amounts owed by subsidiary companies	70,255	86,885
Amounts owed by fellow group undertakings	41,964	16,663
Deferred tax asset (note 8)	2,045	4,011
Prepayments and accrued income	2,252	2,422
Other debtors	656	2,219
	<u>208,707</u>	<u>166,179</u>

15. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 December 2018	31 December 2017
	\$'000	\$'000
Trade creditors	32,372	31,118
Payments on account	412	790
Amounts owed to subsidiary companies	49,923	48,911
Amounts owed to fellow group undertakings	5,914	10,395
Other taxation and social security	16,934	10,205
VAT	2,008	-
Accruals and deferred income	113,139	92,356
Corporation tax payable	21,606	13,570
	<u>242,308</u>	<u>207,345</u>

16. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

	30 December 2018	31 December 2017
	\$'000	\$'000
Accrued expenses	2,325	3,025
Deferred revenue	3,691	1,968
Deferred rent	4,922	505
	<u>10,938</u>	<u>5,498</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. PROVISIONS FOR LIABILITIES

	Warranty Provision
	\$'000
At 31 December 2017	13,235
Additions charged to cost of revenue	21,304
Changes to prior period estimates	(4,888)
Repairs and replacements	(16,842)
Balance as of December 30, 2018	<u>12,808</u>

Warranty provision

As the manufacturer of the goods for Illumina a warranty reserve is held to cover for returns of products, based on shipments in the past 12 months, in line with the standard warranty period.

18. PENSION

The Company operates a Group Personal Pension Plan with defined contributions, 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 period amounted to \$3,407,000 (period ended 31 December 2017: \$2,654,000). Contributions outstanding at the period end were \$368,000 (period ended 31 December 2017: \$309,000).

19. CALLED UP SHARE CAPITAL

	30 December 2018	31 December 2017
	\$'000	\$'000
Allotted, called-up and fully-paid		
12,129,187 (period ended 31 December 2017: 12,129,187) ordinary shares of £0.0025	59	59

20. RESERVES

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

21. OBLIGATIONS UNDER OPERATING LEASES

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	30 December 2018	31 December 2017	30 December 2018	31 December 2017
	\$'000	\$'000	\$'000	\$'000
Within one year	7,294	2,374	7	28
Between two to five years	24,519	29,297	1	9
After five years	91,901	95,347	-	-
	<u>123,714</u>	<u>127,018</u>	<u>8</u>	<u>37</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**22. RELATED PARTY TRANSACTIONS**

The Company has taken advantage of the exemption not to disclose transactions between group undertakings where 100% of the voting rights are controlled within the group and the consolidated financial statements, in which the results of Illumina, Inc. are publicly available. Amounts owed by and to related parties are disclosed in note 14 and 15

23. ULTIMATE PARENT UNDERTAKING

The Company's ultimate and immediate parent undertaking and controlling party is Illumina, Inc., a company registered in the USA. The smallest and largest group in which the results of the Company are included within is headed by Illumina, Inc. Copies of which are available from Illumina, Inc., 5200 Illumina Way, San Diego, CA92122, USA.

24. EVENTS AFTER THE BALANCE SHEET DATE

On 21st June 2019 the Company received an interim dividend from Illumina Singapore Pte for \$100 million and on 26th June 2019 the Company paid a dividend of \$250 million to Illumina Inc.

On 28th July 2019, the company acquired certain assets and liabilities from Bluegnome Limited for a consideration of \$607,468.