

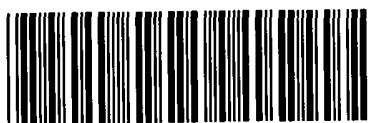
Company Registration No. 03625145

# ILLUMINA CAMBRIDGE LIMITED

Annual Report and Financial Statements

1 January 2017

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**REPORT AND FINANCIAL STATEMENTS**

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## **REPORT AND FINANCIAL STATEMENTS**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

A Nel  
P Dowdy  
R McGrath  
M Van Oene

#### **SECRETARY**

C Dadswell

#### **REGISTERED OFFICE**

Chesterford Research Park  
Little Chesterford  
Saffron Walden  
Essex  
CB10 1XL

#### **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 1 January 2017.

### 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 1 January 2017 \$’000	Period ended 3 January 2016 \$’000	Change %
Royalty revenue	112,076	284,079	(61)
Third party sales	113,483	120,028	(5)
Intra-group sales	1,642,267	777,504	111
Research & development expenditure (net of R&D credit)	416,935	329,756	26
Profit for the period	399,552	172,870	131
	<b>Number</b>	<b>Number</b>	<b>Change</b>
Average headcount	379	312	67

Royalty income has decreased in the year, following the change in Illumina Cambridge manufacturing products previously manufactured by Illumina, Inc. in 2015. This has resulted in an increase in intra-group sales by 111% in the year reflecting the continued commercial worldwide success of the group’s sequencing products.

Third party sales reduced by 5% in 2016, however this is impacted by a reduction in the exchange rate between GBP to USD in 2016 which declined by 12% on yearly average.

**STRATEGIC REPORT (continued)**

Research and development expenditure (net of R&D tax credit) has increased by 26% in the period due to a continuation of the development of the company's sequencing technology. 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 headcount which has increased by 67 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.

**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.

**STRATEGIC REPORT (continued)**

**PRINCIPLE RISKS AND UNCERTAINTIES (continued)**

**Liquidity risk**

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



A Nel

Director

Date: *28 September 2017*

**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 1 January 2017.

**DIRECTORS**

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

C Henry	(resigned 13 April 2017)
R Compton	(resigned 3 May 2016)
A Nel	
F deSouza	(resigned 13 April 2017)
P Dowdy	
R McGrath	(appointed 13 April 2017)
M Van Oene	(appointed 14 September 2017)

**DIVIDENDS**

The directors paid total dividends in the period of \$250 million (2015: \$nil).

**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 1 March 2017, a dividend was received from Illumina Singapore for \$75 million.

On 2 March 2017, a dividend was paid of \$110 million to Illumina Inc.

On 26 September 2017, a dividend was received from Illumina Singapore for \$175 million.

**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 year, 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.

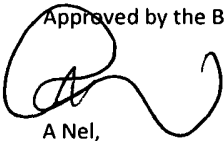
**DISCLOSURE OF INFORMATION TO THE AUDITOR**

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:



A Nel,  
Director

Date: 28 September 2017



**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**

We have audited the financial statements of Illumina Cambridge Limited for the period ended 1 January 2017 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, and the related notes 1 to 25. 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".

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 auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 1 January 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland"; 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, 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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, 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.



Nick Gomer (Senior Statutory Auditor)

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

Cambridge, UK

29 September 2017

**INCOME STATEMENT**

for the period ended 1 January 2017

		Period ended 1 January 2017 \$'000	Period ended 3 January 2016 \$'000
<b>Turnover</b>	Notes 2	1,867,826	1,181,611
Cost of sales		(1,360,166)	(741,856)
<b>Gross profit</b>		507,660	439,755
Research and development costs		(227,988)	(179,701)
Net foreign exchange gain/(losses)		2,097	(3,359)
Other administrative expenses		(43,659)	(57,654)
Other operating income		-	4,266
<b>Operating profit</b>		238,110	203,307
Impairment of investment	12	(32,071)	(52,000)
Income from investments	12	230,000	48,956
Interest receivable and similar income	4	198	1,529
Interest payable and similar charges	5	(102)	(102)
<b>Profit on ordinary activities before taxation</b>	3	436,135	201,690
Tax on profit on ordinary activities	8	(36,583)	(28,820)
<b>Profit for the financial period</b>		399,552	172,870

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

**STATEMENT OF COMPREHENSIVE INCOME**

for the period ended 1 January 2017

	Period ended 1 January 2017	Period ended 3 January 2016
Profit for the financial period	399,552	172,870
<b>Total comprehensive income for the period</b>	399,552	172,870

## STATEMENT OF CHANGES IN EQUITY

for the period ended 1 January 2017

	Called-up share capital \$'000	Share premium account \$'000	Profit and loss account \$'000	Total equity \$'000
<b>At 28 December 2014</b>	59	-	288,487	288,546
Profit for the year	-	-	172,870	172,870
<b>Total comprehensive income for the year</b>	-	-	172,870	172,870
Share based payment recharge by group	-	-	(6,312)	(6,312)
Share based payment expense	-	-	7,014	7,014
Issue of share capital -Original	-	922	-	922
Issue of share capital restated amount	-	18,063	-	18,063
Issue of share capital – Restated	-	18,985	-	18,985
<b>At 3 January 2016 -Original</b>	59	922	462,059	463,040
<b>At 3 January 2016 -Restated</b>	59	18,985	462,059	481,103
Profit for the year	-	-	399,552	399,552
<b>Total comprehensive income for the year</b>	-	-	399,552	399,552
Share based payment recharge by group	-	-	(7,927)	(7,927)
Share based payment expense	-	-	8,817	8,817
Dividends paid in the year	-	-	(250,000)	(250,000)
<b>At 1 January 2017</b>	<b>59</b>	<b>18,985</b>	<b>612,501</b>	<b>631,545</b>

## STATEMENT OF FINANCIAL POSITION

1 January 2017

	Notes	1 January 2017 \$'000	Original 3 January 2016 \$'000	Restated 3 January 2016 \$'000
<b>FIXED ASSETS</b>				
Investments	12,25	91,224	1,320	19,383
Intangible assets	10	11,240	17,663	17,663
Tangible assets	11	25,084	30,452	30,452
		<u>127,548</u>	<u>49,435</u>	<u>67,498</u>
<b>CURRENT ASSETS</b>				
Stocks	13	273,714	241,990	241,990
Debtors	14	169,013	172,093	172,093
Cash and cash equivalents		146,363	76,639	76,639
Short term investments – treasury deposits		115,243	55,673	55,673
		<u>704,333</u>	<u>546,395</u>	<u>546,395</u>
<b>CREDITORS: amounts falling due within one year</b>	15	<u>(187,948)</u>	<u>(116,726)</u>	<u>(116,726)</u>
<b>NET CURRENT ASSETS</b>		<u>516,385</u>	<u>429,669</u>	<u>429,669</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>643,933</u>	<u>479,104</u>	<u>497,167</u>
<b>CREDITORS: amounts falling due after more than one year</b>	16	<u>(3,711)</u>	<u>(4,106)</u>	<u>(4,106)</u>
<b>PROVISIONS FOR LIABILITIES</b>	17	<u>(8,677)</u>	<u>(11,958)</u>	<u>(11,958)</u>
<b>NET ASSETS</b>		<u>631,545</u>	<u>463,040</u>	<u>481,103</u>
<b>CAPITAL AND RESERVES</b>				
Called-up share capital	19	59	59	59
Share premium account	20,25	18,985	922	18,985
Profit and loss account		612,501	462,059	462,059
<b>SHAREHOLDERS' FUNDS</b>		<u>631,545</u>	<u>463,040</u>	<u>481,103</u>

The financial statement of Illumina Cambridge Limited were approved by the board of directors and authorised for issue on 28 September 2017.

They were signed on its behalf by:



A Nel

Director

**NOTES TO THE FINANCIAL STATEMENTS****52 weeks ended 1 January 2017****1. ACCOUNTING PRINCIPLES****Legal Form of the Entity**

Illumina Cambridge Limited is a limited liability company incorporated in England. The registered office is Illumina, Chesterford Research Park, Little Chesterford, Saffron Walden, Essex CB10 1XL.

**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 1 January 2017.

**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
- Total share based payment expense recognised in the profit and loss
- 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 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 1 January 2017	Period ended 3 January 2016
	\$'000	\$'000
<b>Turnover by geographical market</b>		
United Kingdom	114,007	124,349
Rest of Europe	389,026	158,723
North America	864,319	566,737
Rest of the World	500,474	331,802
	1,867,826	1,181,611

Sales to the rest of the world, contain \$188,947,000 (period ended 3 January 2016: \$150,055,000) 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 \$112,076,000 (period ended 3 January 2016: \$110,510,000).

**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:

	<b>Period ended 1 January 2017</b>	<b>Period ended 3 January 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Turnover by revenue stream</b>		
Royalty income	112,076	284,079
Reagent sales (intragroup)	1,071,540	311,208
Reagent sales (third party)	76,373	70,316
Instrument sales (third party)	13,076	33,798
Instrument sales (intragroup)	333,571	221,827
Product warranty revenue and service related income (third party)	24,034	15,914
Product warranty revenue and service related income (intragroup)	47,520	94,414
Research and development services (intragroup)	189,636	150,055
	<b>1,867,826</b>	<b>1,181,611</b>

**3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

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

	<b>Period ended 1 January 2017</b>	<b>Period ended 3 January 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Depreciation of owned tangible fixed assets	13,437	10,175
Amortisation of intangible fixed assets	6,423	6,423
Research and development		
- Costs incurred	229,841	181,379
- Research and development expenditure credit	(1,853)	(1,678)
- Included in cost of sales and recharged to Illumina Singapore Pte. Ltd	188,947	150,055
Operating lease rentals		
- Land and buildings	2,245	2,604
- Plant and machinery	21	323
Share based payment expense	8,817	7,013
Net (gain)/loss on foreign exchange transactions	(2,097)	3,359
Fees payable to the Company's auditor for :		
the audit of the Company's annual accounts	110	169
iXBRL tagging	-	2

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Period ended 1 January 2017	Period ended 3 January 2016
	\$'000	\$'000
Interest receivable on treasury deposits	116	914
Interest receivable in amounts due from group undertakings	82	615
	<u>198</u>	<u>1,529</u>

## 5. INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 1 January 2017	Period ended 3 January 2016
	\$'000	\$'000
Interest payable on loans from other group undertakings	102	102
	<u>102</u>	<u>102</u>

## 6. STAFF COSTS

The aggregate remuneration comprised:

	Period ended 1 January 2017	Period ended 3 January 2016
	\$'000	\$'000
Wages and salaries	41,293	35,102
Social security costs	3,588	3,149
Other pension costs	2,423	2,178
	<u>47,304</u>	<u>40,429</u>

Included within wages and salaries is a total expense of share based payments of \$8,817,000 (period ended 3 January 2016: \$7,014,000) 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	141	122
Sales and marketing	140	113
Administration	56	48
Manufacturing	42	29
	<u>379</u>	<u>312</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 7. DIRECTORS' REMUNERATION AND TRANSACTIONS

	Period ended 1 January 2017	Period ended 3 January 2016
	\$'000	\$'000
Directors' emoluments paid by the company	873	396
Company contributions to money purchase pension schemes	49	33
	<hr/>	<hr/>
	Period ended January 2017	Period ended 3 January 2016
	Number	Number
Number of directors accruing benefits under money purchase schemes	3	4
Number of directors who received shares (RSU's) for qualifying services	5	4
Number of directors who exercised share options	4	4

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 \$2,602,508 (period ended 3 January 2016: \$4,537,686), plus company pension contributions of \$175,981 (period ended 3 January 2016: \$95,523). The aggregate emoluments of the highest paid director were \$929,580 (period ended 3 January 2016: \$1,893,126) and company pension contributions of \$18,000 (period ended 3 January 2016: \$13,588) were made to a money purchase scheme on his behalf. The highest paid director received shares (RSUs) for qualifying services and exercised share options, in both the current and 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 1 January 2017	Period ended 3 January 2016
	\$'000	\$'000
<i>Current tax:</i>		
UK Corporation Tax at 20% (period ended 3 January 2016: 20.25%)	32,985	26,773
Adjustment in respect of prior periods	4,733	895
Foreign tax	(455)	(299)
Total current tax	<hr/> 37,263	<hr/> 27,369
Foreign tax suffered	455	299
Total current tax	<hr/> <hr/> 37,718	<hr/> <hr/> 27,668

**NOTES TO THE FINANCIAL STATEMENTS (continued)****8. TAX ON PROFIT ON ORDINARY ACTIVITIES (Continued)***Deferred taxation:*

Origination and reversal of timing differences	(1,385)	426
Adjustment in respect of prior periods	(50)	686
Effect of changes in tax rates	300	40
Total deferred tax	(1,135)	1,152
Tax on profit on ordinary activities	36,583	28,820

## (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 20% (period ended 3 January 2016: 20.25%). The differences are explained below:

	Period ended 1 January 2017 \$'000	Period ended 3 January 2016 \$'000
Profit on ordinary activities before tax	436,135	201,690
Profit on ordinary activities multiplied by the standard rate of tax of 20% (period ended 3 January 2016: 20.25%)	87,227	40,842
Effect of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	2,240	12,181
Non-taxable income	(46,000)	(9,906)
Effect of impairment of investment	6,414	-
Effects of group relief/other relief	(372)	(675)
Transfer pricing adjustments	(596)	(1,106)
Adjustment from previous periods	4,683	1,581
Tax rate changes	300	40
Share options	(1,044)	(2,128)
Effect of patent box deduction	(16,269)	(12,009)
Total tax (see note 8(a))	36,583	28,820

**NOTES TO THE FINANCIAL STATEMENTS (continued)****8. TAX ON PROFIT ON ORDINARY ACTIVITIES (Continued)****(c) Factors that may affect future tax charges**

In his budget of 8 July 2015, the Chancellor of the Exchequer announced a reduction in the corporation tax rate to 19% for the Financial Year beginning 1 April 2017. The reduction in the corporation rate to 19% for the Financial Year beginning 1 April 2017 received Royal Assent on 18 November 2015. The Finance Bill 2016 provides for a further reduction in the corporation rate to 17% for the Financial Year beginning 1 April 2020. This change was substantially enacted in Finance Act 2016 on 6 September 2016. As these changes were substantially 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:

	<b>Period ended 1 January 2017</b>	<b>Period ended 3 January 2016</b>
	\$'000	\$'000
At start of period	853	2,004
Adjustment in respect of prior periods	26	(686)
Deferred tax charge to income statement for the period	1,084	(465)
	<u>1,963</u>	<u>853</u>
Accelerated capital allowances	803	(698)
Share-based payments	1,113	1,456
Unpaid remuneration adjustments	8	8
Pension costs	33	62
Bad debt expense	6	25
	<u>1,963</u>	<u>853</u>
Deferred tax assets		
Recoverable within 12 months	1,160	628
Recoverable after 12 months	803	923
	<u>1,963</u>	<u>1,551</u>
Deferred tax liabilities		
Payable within 12 months	-	(698)
Payable after 12 months	-	-
	<u>-</u>	<u>(698)</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**

	<b>Goodwill \$'000</b>
<b>Cost</b>	
At 3 January 2016 and 1 January 2017	<u>32,114</u>
<b>Amortisation</b>	
At 3 January 2016	14,451
Charge for the period	<u>6,423</u>
At 1 January 2017	<u>20,874</u>
<b>Net book value</b>	
At 1 January 2017	<u>11,240</u>
At 3 January 2016	<u>17,663</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

	Leasehold improvements	Assets under construction	Machinery equipment	Furniture and fixtures	Computer equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation						
At 3 January 2016	21,918	4,245	25,375	1,114	11,474	64,126
Additions	1,071	2,135	3,192	369	1,632	8,399
Impairment	-	-	(20)	-	-	(20)
Disposals	-	-	(5,666)	(22)	(1,961)	(7,649)
Transfers	-	(1,964)	743	-	1,221	-
At 1 January 2017	22,989	4,416	23,624	1,461	12,366	64,856
Depreciation						
At 3 January 2016	(9,875)	-	(16,114)	(781)	(6,904)	(33,674)
Charge for the period	(4,834)	-	(5,012)	(292)	(3,299)	(13,437)
Disposals	-	-	5,459	22	1,858	7,339
At 1 January 2017	(14,709)	-	(15,667)	(1,051)	(8,345)	(39,772)
Net book value						
At 1 January 2017	8,280	4,416	7,957	410	4,021	25,084
At 3 January 2016	12,043	4,245	9,261	333	4,570	30,452

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. INVESTMENTS

	Trade investments	Shares in subsidiary undertaking	Total
	\$'000	\$'000	\$'000
<i>Cost</i>			
At 3 January 2016	399	52,921	53,320
Restatement Amount	-	18,063	18,063
At 3 January 2016 - Restated	399	70,984	71,383
Additions	-	103,912	103,912
Disposal	-	(52,000)	(52,000)
At 1 January 2017	399	122,896	123,295
<i>Accumulated depreciation</i>			
At 3 January 2016	-	(52,000)	(52,000)
Impairment	-	(32,071)	(32,071)
Disposal	-	52,000	52,000
At 1 January 2017	-	(32,071)	(32,071)
<i>Net Book Value</i>			
At 1 January 2017	399	90,825	91,224
At 3 January 2016 - Restated	399	18,984	19,383
At 3 January 2016	399	921	1,320

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 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 disposed of its investment in ILMN UK Ltd in 2016 as the company was dissolved. The investment value was fully impaired in 2015.

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

In July 2016, the company purchased 100% of the ordinary share capital of BlueGnome Limited from Illumina Europe limited for \$103,912,000. The principal activity of BlueGnome Limited is 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. The investment was reviewed for impairment at the year end and an impairment processed against the investment value based on the recoverable value of the investment.

A listing of indirect investments is given as follows:

<b>Name of Entity</b>	<b>Country of Incorporation</b>
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 Italy Srl	Italy
Illumina Switzerland GmbH	Switzerland
Illumina France SARL	France

**13. STOCKS**

	<b>1 January 2017</b>	<b>3 January 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Raw materials and consumables	70,797	69,414
Work in progress	151,407	142,315
Finished goods and goods for resale	51,510	30,261
	<u>273,714</u>	<u>241,990</u>

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 \$933,186,000 (period ended 3 January 2016: \$631,508,000).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14. DEBTORS

	1 January 2017	3 January 2016
	\$'000	\$'000
Trade debtors	15,103	19,450
Amounts owed by parent company	62,611	17,848
Amounts owed by subsidiary companies	77,799	120,246
Amounts owed by fellow group undertakings	7,302	9,599
Deferred tax asset (note 8)	1,963	853
Prepayments and accrued income	1,780	817
Other debtors	2,455	3,280
	<u>169,013</u>	<u>172,093</u>

## 15. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	1 January 2017	3 January 2016
	\$'000	\$'000
Trade creditors	22,809	35,983
Payments on account	296	869
Amounts owed to subsidiary companies	69,967	389
Amounts owed to fellow group undertakings	14,681	8,466
Other taxation and social security	3,400	6,176
VAT	752	63
Accruals and deferred income	68,894	57,401
Corporation tax payable	7,149	7,379
	<u>187,948</u>	<u>116,726</u>

## 16. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

	1 January 2017	3 January 2016
	\$'000	\$'000
Deferred rent	3,138	1,001
Deferred revenue	573	3,105
	<u>3,711</u>	<u>4,106</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 17. PROVISIONS FOR LIABILITIES

	Warranty Provision
	\$'000
At 3 January 2016	11,958
Additions charged to cost of revenue	19,931
Changes to prior period estimates	(8,504)
Repairs and replacements	(14,708)
Balance as of January 1, 2017	<u>8,677</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 \$2,423,000 (period ended 3 January 2016: \$2,178,000). Contributions outstanding at the period end were \$237,000 (period ended 3 January 2016: \$251,000).

## 19. CALLED UP SHARE CAPITAL

	1 January 2017	3 January 2016
	\$'000	\$'000
<b>Allotted, called-up and fully-paid</b>		
12,129,187 (3 January 2016: 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	
	1 January 2017	3 January 2016	1 January 2017	3 January 2016
	\$'000	\$'000	\$'000	\$'000
Within one year	1,752	2,460	22	20
Between two to five years	17,043	6,938	6	10
After five years	99,896	4,832	-	-
	<u>118,691</u>	<u>14,230</u>	<u>28</u>	<u>30</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 1<sup>st</sup> March 2017 Illumina Cambridge received a dividend of \$75 million from Illumina Singapore Pte.

On 2<sup>nd</sup> March 2017 Illumina Cambridge paid a dividend of \$110 million to Illumina Inc.

On 26 September 2017, a dividend was received from Illumina Singapore for \$175 million.

**25. PRIOR PERIOD RESTATEMENT**

An error was noted after the signing of the 2015 financial statements in relation to the investment value of Illumina Canada and Illumina Hong Kong. These were purchased at the net asset value as of 28 June 2015 rather than at nominal value as had originally been reflected in the 2015 financial statements.

The effect of the error was to understate share premium and understate investments.

As a result, comparative figures for the period ended 3 January 2016:

	<b>As previously reported</b>	<b>Effect of restatement</b>	<b>As restated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Investments	1,320	18,063	19,383
<b>Net assets</b>	<b>463,040</b>	<b>18,063</b>	<b>481,103</b>
<b>Equity</b>	<b>463,040</b>	<b>18,063</b>	<b>481,103</b>