## Regulatory Announcement

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| **Company** | Accsys Technologies PLC |
| **TIDM** | AXS |
| **Headline** | Preliminary results for the year ended 31 March 2014 |
| **Released** | 3 July 2014 |
| **Number** | 2956L07 |

World leaders in wood technology

**AIM: AXS**
**NYSE Euronext Amsterdam: AXS**

**3 July 2014**

**ACCSYS TECHNOLOGIES PLC ('Accsys', the 'Company' or the 'Group')**

## Preliminary results for the year ended 31 March 2014

Accsys, the chemical technology group focussed on the development and commercialisation of a range of transformational technologies based upon the acetylation of solid wood (Accoya®) and wood elements (Tricoya®) for use as class leading, environmentally sustainable construction materials, today announces preliminary results for the year ended 31 March 2014.

| | **2014** | 2013 | Change |
|---|---|---|---|
| Total Group Revenue | **€33.5m** | €18.8m | +78% |
| Gross profit | **€7.8m** | €3.3m | +132% |
| Loss before tax | **(€8.2m)** | (€10.7m) | Improved 23% |
| Underlying loss before tax[1] | **(€7.5m)** | (€10.7m) | Improved 30% |
| Period end cash balance | **€15.2m** | €20.5m | -26% |

[1] Underlying loss excludes €726,000 of legal costs associated with the Diamond Wood arbitration.

### Highlights

- Highly encouraging performance, marginally ahead of market expectations;
- Very strong revenue growth of 78%, with increases recorded across all geographic territories;
- Gross profit more than doubled, with Group gross operating margin improved to 23% (2013: 18%), driven by higher sales volumes, price increases and improved operating efficiency;
- Increased awareness and market acceptance for Accoya® through further enhancement of global distribution network; 19 new Accoya® distribution and agency agreements signed in the period, bringing the total to 61 (2013: 42); extensive coverage now in place across Europe, the Americas and Asia-Pacific;
- Arnhem manufacturing facility reported inaugural annual profit, delivering EBITDA of €2.4 million (2013: loss of €0.9 million); gross manufacturing margin improved to 20% (2013: 15%);
- Significant licensing progress achieved:
  - Accoya® licence agreement with Solvay became fully effective in December 2013; Solvay's decision concerning the investment in its plant and its location is expected in next few months; Accsys and Solvay are also currently in discussions examining the scope of a possible cooperation agreement between the parties;
  - TTL, Accsys' 50:50 joint venture with INEOS, entered licence agreement with Medite in July 2013; formal Medite Board approval expected later this financial year;
  - Post period end, in July 2014, licence option agreement, covering the majority of Latin America, between TTL and Masisa was extended and Masisa Tricoya® Super MDF launched;

- Diamond Wood licence agreement was terminated in August 2013 following robust legal advice; the subsequent arbitration process is currently in progress and details are subject to confidentiality; an update will be made once the matter is concluded; and
- Balance sheet strength maintained with cash balance of €15.2 million at 31 March 2014 (30 September 2013: €16.9 million).

**Outlook**

- Strong start to the current financial year, with continuing sales growth;
- Short-term focus on driving operational efficiencies in order to achieve and enhance the manufacturing capacity at Arnhem plant;
- Confident of making further licensing progress in current financial year.

Paul Clegg, Chief Executive commented: "Accsys enjoyed a highly encouraging financial year, delivering progress on all fronts. Our rate of revenue growth demonstrates the traction our products are gaining in the global marketplace. This growth has enabled us to more than double gross profits, helping to reduce our rate of cash burn and maintain a healthy balance sheet with more than adequate financial strength to see us through to profitability in the medium-term.

"While broadening and deepening the market penetration of our products remains key, the current financial year brings a new, most welcome, challenge of maximising capacity at our Arnhem manufacturing facility in order to meet the market demand our sales and marketing efforts have created.

"In terms of licensing, our licence with Solvay is now formally approved, and we await the final Solvay decision on the plant and its location. This represents a strong validation of our products and processes, and we have made significant progress towards securing our first, fully effective Tricoya® licence with Medite.

"Overall, I am confident that Accsys is now very well positioned to take advantage of the significant investment that has been made over the last few years in sales, marketing, R&D and business development, enabling the Company to further increase sales volumes and margins while simultaneously progressing licensing opportunities with existing and potential licensees."

There will be a presentation relating to these results at 10:00 BST on 3 July 2014. The presentation will take the form of a web based conference call, details of which are below:

**Webcast link:**

Click here or copy and paste ALL of the following text into your browser: http://www.media-server.com/m/p/hka6j6qk

**Conference call details for participants:**

Participant Telephone Number: +44 (0)20 3427 1910 (UK Toll)
Confirmation Code: 1861672

*Participants will have to quote the above code when dialling into the conference.*

**Ends**

**For further information, please contact:**


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## Accsys Technologies PLC

## Chairman's Statement

**Introduction**

I am very pleased to report that Accsys has enjoyed an excellent financial year, delivering considerable revenue increases and taking significant steps forward in licensing the Company's proprietary technologies. Together these support my confidence that Accsys continues to be on the right path towards achieving its long term objective of delivering sustainable profitability.

Our positive position is only marred by the very sad news that Gordon Campbell passed away in April. Gordon joined the board in 2005, became our chairman in 2010 and was instrumental in turning the Company around in what was a very difficult period. I have been appointed Chairman while we review the composition of the board.

**Financial Summary**

Total revenue for the year ended 31 March 2014 increased by 78% to €33.5m (2013: 26% growth to €18.8m). In the same period, Accoya® revenue, excluding sales to Medite for the manufacture of Tricoya®, increased by 61% to €26.4m (2013: 45% growth to €16.4m). Total revenue also included €1.1m of licence income (2013: €0.6m) reflecting progress with our Accoya® licensee, Solvay.

Gross profit margin for the Group improved from 18% to 23%, resulting from increased Accoya® volumes, price increases, operating efficiencies and higher licence income. Other operating costs increased by 11% to €15.0m (2013: €13.5m) largely due to €726,000 of legal costs associated with the Diamond Wood arbitration process and an increase in staff costs. As a result, the EBITDA loss reduced by 31% to a €5.7m loss (2013: €8.4m loss).

The Arnhem manufacturing facility generated a positive EBITDA of €2.4m compared to a loss of €0.9m in the prior year. We continue to believe this illustrates the potential returns a prospective licensee may be able to generate.

The decrease in the cash balance to €15.2m as at 31 March 2014 (2013: €20.5m) is the result of €3.6m of cash out-flows from operating activities before changes in working capital, a 50% decrease compared to the previous year. Further cash out-flows were attributable to €0.5m expenditure in respect of capitalised development costs, €0.6m in respect of tangible fixed assets and an investment of €1.2m in Tricoya Technologies Limited, our JV with INEOS. Working capital improved significantly, with a €0.3m decrease in the period compared to a €1.8m increase in the prior year. We continue to believe that the Company has sufficient funds to take it through to profitability.

**Progress on all fronts**

The increase in revenue has been driven by the ever increasing demand for Accoya® resulting from increased awareness, market acceptance and a greater global network. We have increased the number of Accoya® distribution and agency agreements by 19 making a total of 61 covering most of Europe, Australia, Canada, Chile, China, India, Israel, Mexico, Morocco, New Zealand, South Africa, parts of South-East Asia and the USA.

We implemented two price increases in the period with another planned for later in this financial year which, together with an on-going project to improve the efficiency of our production process and the economies of scale resulting from the higher volumes, means I am confident that our operating margins will continue to improve.

We made two significant steps concerning the licensing of Accoya®. In August 2013 we announced that we had taken the decision to terminate our licence agreement with Diamond Wood which held manufacturing and distribution rights in China and much of South-East Asia. The decision was made as a result of their failure to comply with their contractual obligations and following robust legal advice. While Diamond Wood subsequently served a notice of arbitration upon us, we announced that we have welcomed the opportunity to confirm the validity of our termination. The arbitration process is currently in progress and, whilst further details of the arbitration are subject to confidentiality, Accsys will provide a further update once the matter has been concluded.

In December 2013 Solvay, the Belgian chemical group, approved their Accoya® licence agreement which gives them exclusive rights in Europe (with the exception of Benelux, UK and Ireland). The licence agreement is now fully effective, however at the same time we agreed to explore the possibility of locating their plant in Arnhem. Solvay is currently reviewing two options for the optimal plant location, being either Arnhem, the Netherlands or Freiburg, Germany and the decision concerning the investment in its plant and its location will be made by Solvay in the next few months.

In addition the two companies are currently in discussions examining the scope of a possible cooperation agreement between the two companies.

Tricoya Technologies Limited ('TTL'), our joint venture with INEOS concerning Tricoya® wood elements, has also made strong progress in its first full year following its formation in October 2012.

In July 2013, TTL entered a licence agreement with Medite granting rights to build and operate a plant to manufacture, market and sell Tricoya®. The licence agreement is conditional upon the approval of Medite's board of directors which is expected later this financial year. At the same time, the market evaluation of Medite Tricoya® continues with a significant increase in sales to customers.

Post period end, in May 2014, TTL's licence option holder in Latin America, Masisa, paid to extend its licence option and undertook to carry out an evaluation of Tricoya®, including market testing, with the launch of Masisa Tricoya® Super MDF.

**Outlook**

The continuing increase in global demand for Accoya® demonstrates the acceptance and the overall market potential of our products. It also confirms that the long term opportunity for Accsys and its ability to monetise its intellectual property remains both substantial and exciting.

I believe we have entered a new phase in the development of the Company as we transition from a company which has focussed on R&D and initial market seeding into a company which is increasingly focussed on ensuring how the demand we have created can be met and how we best extract value from our technologies and the experience that we have developed.

The start to the new financial year continues to support this and I believe we are in a strong position to achieve our objective of making the Group profitable.

**Patrick Shanley**
**Non-executive Chairman**
**2 July 2014**

**Increasing awareness and product acceptance results in record Accoya® sales**

Revenue from Accoya® customers increased by 61% to €26.4m in the year to 31 March 2014 (2013: €16.4m) reflecting continuing strong growth in demand in all global regions. Growth has been driven by both existing and new customers and, while the improving economic climate has helped, the growth continues to be driven by the ever increasing awareness and acceptance of Accoya® in the global market place. This was particularly the case in the United Kingdom where Accoya® sales grew by 93% without having added any new distributors. We believe this is also attributable to the United Kingdom benefiting from a particularly focussed technical sales method over the last few years and which we are now seeking to roll out in certain other countries.

In addition we sold €2.9m of Accoya® to Medite for the manufacture of Tricoya®, a significant increase compared to the €157,000 sold in the previous year during which Medite had been utilising their earlier initial build-up of stock.

We now have a total of 61 Accoya® distributor and agency agreements in place (an increase of 19 since last year) covering most of Europe, Australia, Canada, Chile, China, India, Israel, Mexico, Morocco, New Zealand, South Africa, parts of South-East Asia and the USA. The increase includes new distributors in the USA, Spain, South Africa, Israel, Ukraine, and a number in Diamond Wood's former territory including Thailand, Malaysia, Philipipines, Japan and Singapore.

We implemented price increases twice during the year, the latter of which is largely expected to impact the new financial year. In addition, we are already planning a further price increase later this financial year. The price increases reflect a combination of the overall state of the market into which we are selling, increased prices of some raw materials and our ambition to further improve our margins in order to achieve profitability as soon as possible.

Sales in the first quarter of the new financial year have continued to show positive growth compared to the same period last year. However, given the significant impact of sales to Medite in the period compared to the year before we expect a greater challenge in achieving a similar overall growth rate in the current financial year. In addition, as noted below, the Arnhem production facility has been operating at a significantly greater level.

Accoya® continues to be used for an increasing number of prominent or demanding projects around the world. Go to www.accoya.com to see some of these examples.

**Arnhem plant delivers inaugural profit; focus turns to enhancing capacity and operational efficiency to drive growth**

The total volume of Accoya® sold in the year increased by 88% to 25,391m$^3$. This was an enormous accomplishment by the manufacturing team and was achieved without the need of significant capital investment and with a relatively limited increase in production staff. As a result, total manufacturing revenue increased by 77% to €32.4m (2013: €18.3m). The larger increase in volumes sold compared to revenue reflects the different mix of Accoya® sold in the period, in particular noting the higher volumes sold to Medite.

The difference between €26.4m of sales to Accoya® customers and €32.4m manufacturing revenue is attributable to sales to Medite (€2.9m) and other revenue, primarily the sale of acetic acid, a bi-product from our manufacturing process.

Gross manufacturing margin increased significantly, to 20% (€6.6m) compared to 15% (€2.8m) last year. This was achieved due to a combination of the increased volumes (and associated economies of scale), the impact of price increases and the on-going project to improve our process efficiency. The improved profitability also resulted in the manufacturing segment (which includes 68% of the Group's headcount) reporting a positive EBITDA of €2.4m compared to a loss of €0.9m in the prior year. We continue to believe this illustrates the potential returns a prospective licensee may be able to generate.

In the new financial year, we are focussed on achieving and maximising the production capacity at Arnhem. This includes implementing a number of process and production changes which have been identified from previous R&D projects which will help increase the production capacity together with the continued optimisation of short term production constraints as a result of the rapid increase in production.

Safety is always given a top priority as the industry in which we work is considered a high risk industry. We have worked consistently to understand these risks, learn from previous incidents and implement risk-mitigating processes, technologies and behaviour patterns. We will continue to strive to create an environment free from harm and accidents.

**Licensing - Fully effective Accoya® licence agreed with Solvay; decision on plant location expected shortly**

In December 2013 our Accoya® licence agreement ('the licence agreement') with Belgian chemical group Solvay was approved by both parties and became fully effective, resulting in a new level of cooperation between the two companies.

The licence agreement grants Solvay exclusive rights for a minimum 15 year period, renewable at agreed terms, to produce and to sell Accoya® within the Council of Europe from an initial plant. The licenced territory includes 47 states in the Council of Europe, but excludes Belgium, Ireland, Luxembourg, the Netherlands and the United Kingdom which are reserved to Accsys. The licence agreement also grants Solvay the option to build additional Accoya® production plants in Europe, with the first plant (the 'plant') having a total capacity of c.63,000 m$^3$ of finished Accoya® output expected to be operational in the course of 2016.

In return, Accsys will receive a series of licence payments, which have already commenced and will be made during the phased construction of the plant, and with royalty payments per volume of Accoya® produced thereafter.

The two companies also signed amendments to the licence agreement which include the possibility of Solvay constructing the plant in Arnhem on land Accsys currently owns, adjacent to the Company's existing manufacturing facility and in a phased manner. Solvay is currently reviewing the two options for the optimal plant location, being either Arnhem, the Netherlands or Freiburg, Germany.

The decision on the investment in the plant and its location is expected to be made by Solvay in the next few months.

In addition the two companies are currently in discussions examining the scope of a possible cooperation agreement between the two companies.

Further to the licence agreement becoming unconditional in December 2013, Accsys and Solvay entered a transitional phase in which Accsys will continue to sell to Accoya® distributors in Solvay's region while working to transfer the relationships to Solvay. Solvay's Accoya® decking product retail trial is now in its second year and is expected to be in 70 outlets in Europe, with several new store chains participating, compared to 40 last year.

Following Solvay's approval of the licence agreement, in January 2014 Accsys delivered a Process Design Package to Solvay which enables Solvay to complete the planning and engineering design required for them to construct their own plant.

In August 2013, we announced that we took the decision to terminate our licence agreement with Diamond Wood as a result of Diamond Wood's failure to comply with their contractual obligations. Diamond Wood subsequently served a notice of arbitration challenging our position. As we have previously stated, we welcome the opportunity to confirm the validity of our termination. The arbitration process is currently in progress and whilst further details of the arbitration are subject to confidentiality, Accsys will provide a further update once the matter has been concluded.

Accsys and TTL continue to develop a number of new and existing potential Accoya® and Tricoya® licence opportunities respectively, with counterparties whose combined existing total wood product manufacturing or processing capacity is in excess of 10 million $m^3$ per annum. While these discussions remain on-going, the complex nature and investment required by a licensee means that the timing and certainty of their completion remain difficult to predict.

**Tricoya Technologies Limited ('TTL'); encouraging progress towards first fully effective licence**

TTL, the INEOS and Accsys joint venture formed to exploit our intellectual property associated with Tricoya®, continues to make progress in all areas including engineering, product development, marketing and business development.

In July 2013 TTL entered into a joint development, production and distribution licence agreement with Medite to allow Medite to build and operate a plant to manufacture, market and sell Tricoya®, with an initial plant capacity of 30,000 metric tonnes per annum. In return, Medite has begun to make a series of technology-based licence payments which will be followed by royalty fees payable per metric tonne of production.

The licence is conditional upon Medite obtaining approval from its Board of Directors, which is expected later this financial year, prior to plant construction. Medite will have exclusive rights to market and sell in Ireland, The Netherlands, and the United Kingdom and non-exclusive rights in other territories. TTL has subsequently been developing the Process Design Package which is required to complete the necessary detailed design of the overall plant.

The market evaluation of Medite Tricoya® continues to be positive with increasing acceptance of the product leading to a significant increase in sales to customers. This is partly reflected by the sales of Accoya® to Medite for the manufacture of Medite Tricoya®, prior to dedicated facilities for wood acetylation being built. These sales increased in the period to €2.9m compared to €157,000 in the prior year.

In November 2013, the European Commission awarded the Medite Tricoya project a subsidy under its Life+ programme. The subsidy is worth up to €2.1m and is expected to benefit both Medite and TTL over a three year period.

In May 2014, TTL's relationship with its licence option holder in Latin America, Masisa, took a step forward with the extension of the option and agreement to carry out an evaluation of Tricoya® including market testing, production testing and development of finished end-products with the launch of Masisa Tricoya® Super MDF.

Masisa has industrial facilities in Chile, Argentina, Brazil, Venezuela and Mexico as well as commercial operations in over 40 countries. Its main panel products are MDP (medium density particleboard), MDF (medium density fibreboard) and Melamine boards. The option agreement, originally signed in April 2012, if exercised, grants Masisa exclusive production and distribution rights for Tricoya® for the Latin American market, excluding Brazil, for which the sales and marketing rights are non-exclusive.

**Intellectual Property**

During the period we received confirmation from the Patent Offices in China, Indonesia and the USA of the grant of Accoya® process patent claims which successfully secure monopoly rights for our process in those territories for 20 years from the patent application filing date. These granted patents further strengthens Accsys' patent portfolio, securing protection for Accsys, its licensees and distributors across the globe.

We can also confirm the purchase from the US company Weyerhaeuser, of their US patent covering the use of electromagnetic radiation in methods for the acetylation of wood.

Accsys has continued to file new patent applications in the recent period and now owns seven different Accoya® patent families, with 26 patents granted and 18 further applications, filed in a total of 30 countries world-wide.

In respect of Tricoya®, TTL benefits from five published patent families with a total of 67 published product and process patent applications filed in key territories across the world.

Our principal brands, Accoya®, Accsys, Tricoya® and the Trimarque Device, including Arabic, Chinese and Japanese transliterations, are protected by trademark registration in 56 countries throughout the world with pending applications in a further single country. These registrations and applications cover our corporate identity and the products we sell as well as those to be sold by our licensees and distributors.

**Other developments**

Accoya® recently became Svanen Certified, a world-leading Nordic eco-label, adding to the many eco-labels that Accoya® and Tricoya® have already obtained and further supporting the positive environmental credentials that our products can boast. (See our Sustainability Report for further details). We continue to carry out a wide range of certification and performance tests to confirm the superior performance qualities of Accoya® and Tricoya®.

For example, Accoya® has outperformed leading Class 1 timbers in recent tests carried out by the Australian Forest Research Company (AFRC). Initial laboratory tests by ARFC tested Accoya® against five different fungi found in Australia. Accoya® showed exceptionally high levels of resistance to decay against all five fungal species and excelled against Western Red Cedar (durability class 2) and Spotted Gum (durability class 1). Accoya® also out-performed chromated copper aresenate (CCA) H4 high level wood preservation, Western Red Cedar, Merbau and Teak in nine year, ground durability testing in New Zealand.

**Strong start to the current financial year; confident of making further progress**

The last financial year has marked a significant step in Accsys' development. The strong sales growth and significant steps forward with our licensees demonstrate the ever increasing acceptance of our products and help confirm what we believe is the very significant long term potential for our technologies.

The new financial year has started well with continuing sales growth, however we face ever evolving challenges. These include how we manage the increasing demand, both in the short term from our facility in Arnhem, and in the longer term by executing the licence agreements we have agreed so far as well crystallising the other business development discussions which we have been holding.

The financial position of the company is strong and we are becoming ever closer to achieving, first, a cash-flow break-even position, followed by overall profitability. We believe the expected increase in sales this year, together with another planned increase in our prices will enable us to achieve these milestones in the foreseeable future.

Overall, I am confident that Accsys is now very well positioned to take advantage of the significant investment that has been made over the last few years in sales, marketing, R&D and business development, enabling the Company to further increase sales volumes and margins while simultaneously progressing licensing opportunities with existing and potential licensees.

**Paul Clegg**
**Chief Executive Officer**
**2 July 2014**

### Strategy and business model

### Products and Process

Manufactured through Accsys' highly sustainable proprietary acetylation processes, Accoya® wood and Tricoya® wood elements exhibit superior dimensional stability, durability and other important benefits when compared with alternative natural, treated and modified woods as well as more resource intensive man-made materials.

The attributes of Accoya® wood make it a highly effective solution for a wide range of external applications including doors, windows, cladding, decking, shutters, louvres, civil works, landscaping, outdoor furniture and more.

The possibilities for the use of Tricoya® wood elements as the key component with panel products are ever expanding but include facade cladding, fascia and soffit panels and other secondary exterior applications, window components; wet interiors, including wall linings in swimming pools, bathrooms, wet rooms, changing rooms; speciality furniture including lockers, cubicles, chairs and tables, play frames, tree houses and exterior composite furniture; signage; automotive parts and sports equipment.

While the underlying chemistry associated with wood acetylation has been around for many years, we are the only organisation to have successfully commercialised it on an industrial scale for our product categories.

### Market potential

We believe the potential market for Accoya® and Tricoya® is in excess of 2.5 million $m^3$ annually. To put this into perspective, during the last year we sold 25,391$m^3$, however the total global solid wood market is understood to exceed 400 million $m^3$ annually. The global wood based panel sector is approximately 290 million $m^3$ annually.

### Environmental benefits

We believe our products offer a significant benefit when considering the global desire to reduce the negative impacts on our environment. Our products are the most environmentally friendly building solutions over their full life cycle, made from abundantly available, fast growing, sustainably sourced, renewable resources, yet with durability and dimensional stability exceeding the best performing tropical hardwoods. They are natural building materials with low maintenance and consistent qualities of the highest performing non-sustainable man-made materials; while benefitting from all positive attributes of wood (sustainability, strength, beauty) without the downfalls (poor durability & stability).

Accoya®'s carbon footprint significantly outperforms most other commonly used building materials such as concrete, PVC, MDF and plywood as well as a range of tropical hardwoods such as azobe and red meranti. Through the photosynthesis process trees absorb $CO_2$ and as a result 1$m^3$ of wood may store over 1 ton of $CO_2$ for its lifetime. Our process takes fast growing, sustainably sourced wood and converts into a long last construction material, which can be incinerated for energy production at the end of its life. This has enabled us to demonstrate that Accoya® is carbon negative over its extended life cycle.

See the Sustainability report for further details.

### Business model

Our overall business model is best explained in the following three phases. We have recently entered the third phase:

**Phase 1 (Completed: 2003 to 2009)**

Construction and operation of proof of concept acetylation plant:

- We acquired the pilot production plant assets and all associated intellectual property rights following many years of research and development activities regarding the acetylation of wood species
- We completed the construction of full scale proof of concept production plant in Arnhem in 2007; a culmination of 16 years R&D in the Netherlands.
- We completed the first commercial production trial runs and carried out stringent product scoping and testing
- We established a comprehensive global brand strategy for Accoya® and Tricoya®
- 1st commercial sales of Accoya®

**Phase 2 (Completed: 2008 to 2013)**

This involved the transition of the Arnhem proof of concept plant to stand-alone commercial manufacturing facility. This was carried out during a significant global economic recession and during which Accsys completed two fund raisings and wrote off significant amounts from our balance sheet:

- Formed a stable and experienced management team
- Created and developed worldwide market and brand for Accoya®
  - Created brand and marketing strategy including web and digital mediums
  - Carried out extensive 3rd party testing and validated Accoya® performance benefits
  - We established and expanded global distribution network to increase sales capacity and prove demand
  - We enabled the provision of technical sales, marketing and operational support
- Continuous manufacturing improvement

    - We carried out R&D projects focusing upon improving quality and finding efficiencies to reduce cycle time and increase name plate capacity
    - We expanded our Arnhem site from an R&D project to a commercially viable facility
    - We streamlined our support activities such as procurement, maintenance and logistics
- Financial stability via generation of positive EBITDA at Arnhem manufacturing Company
    - We increased capacity utilisation
    - Improved gross margin through reduction of unit production costs and market sensitive price increases
    - Focused operating cost control and active working capital management
    - Protection of IP - Established world-wide patent portfolio to cover both core acetylation and enabling technologies
- Development of Tricoya® acetylation feedstock principles and market testing of Tricoya®
- Establish value adding relationships with key industry players
    - Formed joint venture with INEOS for the exploitation Tricoya® wood elements acetylation technology and processes
    - Key commercial and technical relationships developed with wood suppliers, coatings manufacturers and research institutes on a global basis.
    - Strategic relationships with companies such as BP

**Phase 3 (Commenced: 2013 onwards)**

Manufacturing:

- Production of Accoya® at Arnhem plant continues to seed new markets and drive demand for Accoya® as well as for use as a feedstock in the production of Tricoya®
- Continued focus on reducing cycle time to increase Arnhem capacity and profitability

Meeting global demand:

- Ongoing licensing of Accoya® acetylation technology to achieve multiple licence agreements, including Solvay, to satisfy global demand for solid wood
- Development of extended global distributor network
- Development of detailed engineering documents for licensees
- Development of a model to benefit further from our expertise by assisting 3rd parties in areas including sales, marketing, product and technical development, operations and maintenance.
- Continued close co-operation between Accsys and INEOS within the TTL joint venture, to further develop and facilitate the licensing of Tricoya®

Research and Development:

- Continued R&D and product development activities to generate future value
- Further development of new species, end products and additional applications to aid licencing discussions and maximise value
- Strengthened protection of intellectual property

Brand

- Continued development, advancement and protection of globally established Accoya® and Tricoya® brands

### Key performance indicators

We consider the following to be key performance indicators by which progress in the development of the business may be assessed:

- Sales values of Accoya® wood and the geographic spread of these sales;
- Profitability of the Arnhem plant;
- Annual nameplate capacity of the Accoya® wood production facility in Arnhem;
- The volume of Accoya® (in $m^3$) and Tricoya® (in metric tonnes) of licensee production facilities either committed to by third parties, or in use;
- Process improvements to reduce progressively the direct cost per $m^3$ to produce Accoya® wood, optimising the utilisation of direct materials, utilities and capacity utilised in the wood modification process.

Progress against these indicators is detailed in the Chief Executive's Report.

### Principal risks and uncertainties

The principal risks and uncertainties are set out in the Directors' Report.

### Income statement

#### Revenue

Total revenue for the year ended 31 March 2014 increased by 78% to €33.5m (2013: €18.8m). In the same period, Accoya® revenue increased by 61%, excluding sales to Medite for the manufacture of Tricoya®, to €26.4m (2013: €16.4m). We sold €2.9m of Accoya® to Medite for the manufacture of Tricoya®, a significant increase compared to the €157,000 sold in the previous year during which Medite had been utilising their earlier initial build-up of stock. Total revenue also included €1.1m (2013: €0.6m) of licence income attributable to Solvay. Other revenue, which includes the sale of acetic acid, increased by 80% to €3.1m (2013: €1.7m).

#### Gross margin

Gross profit margin improved from 18% to 23%, resulting from increased Accoya® sales, increased licence income, price increases and improved operating efficiencies. The gross manufacturing margin increased from 15% to 20%.

#### Other operating costs

Other operating costs increased by 11% to €15.0m (2013: €13.5m). This increase was attributable to higher administration costs and in particular €726,000 of legal costs incurred in the period in respect of the Diamond Wood arbitration process, together with higher staff costs. The Group continued to invest in sales and marketing with costs of €2.9m (2013: €2.9m) and research and development with costs of €1.2m (2013: €1.2m).

Headcount increased marginally to 101 (2013: 96) as a result of the significantly higher overall activity levels. Overall staff costs increased by 9% to €9.0m (2013: €8.3m) attributable to the higher headcount and an increase in the charge for share based payments to €1.2m (2013: €0.9m).

#### Loss from operations

The loss from operations decreased by 29% to €7.2m (2012: loss of €10.2m) due to the improvement in gross margin described above.

#### Finance income

Finance income of €155,000 (2013: €206,000) represents interest receivable on bank deposits.

#### Finance expense

The finance expense of €226,000 (2012: €244,000) is due to interest element arising on the payments attributable to the sale and leaseback of part of the Group's land and buildings in Arnhem.

#### Share of joint venture loss

On 5 October 2012, Accsys entered into a 50:50 joint venture with INEOS to exploit Accsys' intellectual property surrounding its proprietary Tricoya® wood elements acetylation technology and processes, which is expected to lead to the accelerated global deployment of Tricoya®. The company, Tricoya Technologies Limited ('TTL'), is developing and exploiting Accsys' Tricoya® technology for use within MDF, particle board and wood plastic composites in a worldwide panel products market estimated to be worth more than €60 billion annually.

TTL has been accounted in the Accsys Group accounts using the equity method. During the period, TTL recorded revenue of €153,000 (2013: nil) and total costs of €2.0m (2013: €0.9m) resulting in Accsys' share of loss of €0.9m (2013: €0.4m). (See note 7 for further details.)

#### Taxation

The net tax charge of €699,000 (2013: €355,000) primarily represents a tax charge arising from the utilisation of tax losses of €866,000 previously recognised offset by research and development tax credits of €169,000 (2013: €286,000) attributable to activities carried out in the current year.

#### Dividends

No final dividend is proposed in 2014 (2013 final dividend: €Nil). The Board deems it prudent for the Company to maintain as strong a balance sheet as possible during the current phase of the Company's growth strategy.

#### Earnings per share

Basic and diluted loss per share was €0.02 (2013 basic and diluted loss per share was €0.03).

### Balance sheet

### Intangible assets

Intangible asset additions of €459,000 (2013: €953,000) predominantly relate to capitalised internal development costs including €152,000 (2013: €456,000) in respect of the Accoya® licence Process Design Package.

### Property, plant and equipment

Property, plant and equipment additions of €0.6m (2013: €0.3m) predominantly relate to technology improvements and items of maintenance equipment at our Arnhem production facility. During the prior period the Group entered into a sale and leaseback agreement for part of the Arnhem land which has been accounted for as a operating lease and has resulted in the disposal of €1.7m of land in the prior period. See note 15.

### Available for sale investments

Accsys Technologies PLC has previously purchased a total of 21,666,734 unlisted ordinary shares in Diamond Wood China Limited. The historical cost of the unlisted shares held at 31 March 2014 is €10m (2013: €10m). However, a provision for the impairment of the entire balance of €10m continues to be recorded, as at 31 March 2014 there is considerable doubt as to whether Diamond Wood will continue as a going concern. See note 16.

### Inventory

The Group had total inventory balances of €6.1m (2013: €4.9m). Finished goods consisting of Accoya® represented €2.6m (2013: €3.0m) and raw materials and work in progress, primarily consisting of unprocessed lumber, being €3.5m (2013: €1.8m). The increase is attributable to anticipated increased sales in the new financial year.

### Cash and cash equivalents

The Group had cash and bank deposits of €15.2m at the end of the period (2013: €20.5m). The decrease in the year is mainly the result of €3.6m of cash out-flows from operating activities before changes in working capital, noting however that this represented a 50% decrease compared to the previous year. Further cash out-flows were attributable to €0.5m expenditure in respect of capitalised development costs, €0.6m in respect of tangible fixed assets and €1.2m investment in Tricoya Technologies Limited, our JV with INEOS. Working capital improved significantly, with a €0.3m decrease in the period compared to a €1.8m increase in the prior year.

### Trade and other receivables

Trade and other receivables have increased to €4.5m (2013: €3.7m). Within this, trade receivables increased from €2.3m to €3.1m reflecting the significantly higher sales levels.

### Trade and other payables

Trade and other payables have increased to €5.6m (2013: €3.4m). Included within this, trade payables increased from €2.3m to €3.4m largely as a result of the increased activity levels. In addition, accruals and deferred income increased from €0.9m to €1.7m largely as a result of €0.9m received from the European Community in respect of a Life + subsidy relating to the Medite Tricoya® project.

### Finance lease creditor

The Group has previously entered into a sale and leaseback agreement for part of the Arnhem land and buildings. The first phase was resulted in proceeds of €2.2m which has been accounted for as a finance lease. At 31 March 2014 there are €3.5m of payments committed to over the remaining life of the lease (2013: €3.7m) (see note 24). The second part of the sale and leaseback of the land in Arnhem was completed in February 2013, however this has been accounted for as an operating lease (see note 23).

**Capital structure**

Details of the issued share capital, together with the details of the movements in the Company's issued share capital in the year are included in note 22. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in Note 13. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

**Going concern**

The financial statements are prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future, which is deemed to be at least 12 months from the date these financial statements are approved.

As part of the Group's going concern review, the Directors have reviewed the Group's trading forecasts and working capital requirements for the foreseeable future. These forecasts indicate that, in order to continue as a going concern, the Group is dependent on the achievement of certain operating performance measures relating to the production and sales of Accoya® wood from the plant in Arnhem and the collection of on-going working capital items in line with internally agreed budgets.

The Directors have considered the internally agreed budgets and performance measures and believe that appropriate controls and procedures are in place or will be in place to make sure that these are met. The Directors believe, while some uncertainty inherently remains in achieving the budget, in particular in relation to market conditions outside of the Group's control, that there are a sufficient number of alternative actions and measures that can be taken in order to achieve the Group's medium and long term objectives.

Therefore, the Directors believe that the going concern basis is the most appropriate on which to prepare the financial statements.

**William Rudge**
**Finance Director**
**2 July 2014**

The Directors present their report together with the audited consolidated financial statements for the year ended 31 March 2014.

**Results and dividends**

The consolidated statement of comprehensive income for the year is set out on page 33, and shows the loss for the year.

The Directors do not recommend the proposal of a final dividend in respect of the current year, consistent with the prior year.

**Principal activities and review of the business**

The principal activity of the Group is the production and sale of Accoya® solid wood and licensing of technology for the production and sale of Accoya® wood and Tricoya® wood elements via the Company's 100% owned subsidiaries, Titan Wood Limited, Titan Wood B.V., Titan Wood Technology B.V. and Titan Wood Inc (collectively the 'Group') and its joint-venture with INEOS, Tricoya Technologies Limited. Manufactured through the Group's proprietary acetylation processes, these products exhibit superior dimensional stability and durability compared with alternative natural, treated and modified woods as well as more resource intensive man-made materials. A review of the business is set out in the Chairman's statement and the Chief Executive's report on pages 1 to 5. Accsys Technologies PLC is incorporated in the United Kingdom.

**Strategic Report**

The Strategic Report, on page 6, sets out the Company's strategy, business model and key performance indicators.

**Financial instruments**

Details of the use of financial instruments by the Company and its subsidiary undertakings are set out in Note 25 of the financial statements.

**Share issues**

On 5 July 2013, a total of 4,765,666 shares were issued to an Employment Benefit Trust, the beneficiaries of which were to be the Executive Directors and Senior Managers (see note 13).

On 13 September 2013, a total of 415,332 of Ordinary shares were issued and released to employees together with the 497,854 of Ordinary shares issued to trust on 12 August 2013. (See note 13).

On 20 January 2014, a total of 369,423 of Ordinary shares were issued and released to employees.

**Principal risks and uncertainties**

The business, financial condition or results of operations of the Group could be adversely affected by any of the risks set out below. The Group's systems of control and protection are designed to help manage and control risks to an appropriate level rather than to eliminate them.

The Directors consider that the principal risks to achieving the Group's objectives are those set out below.

(a) Economic and market conditions

The Group's operations comprise the manufacture of Accoya® wood and licensing the technology to manufacture Accoya® and Tricoya® wood elements to third parties. The cost and availability of key inputs affects the profitability of the Group's own manufacturing whilst also impacting the potential profitability of third parties interested in licensing the Group's technology. The price of key inputs and security of supply are managed by the Group, partly through the development of long term contractual supply agreements.

An element of the Group's strategy for growth envisages the Group selling new or existing products and services into other countries or into new markets. However, there can be no assurance that the Group will successfully execute this strategy for growth. The development of a mass market for a new product or process is affected by many factors, many of which are beyond the control of the Group, including the emergence of newer and more competitive products or processes and the future price of raw materials. If a mass market fails to develop or develops more slowly than anticipated, the Group may fail to achieve profitability.

The Group has intangible assets amounting to €8.3m. The carrying values of these assets are dependent on new or existing licensees building their production plants and executing their business plans.

(b) Regulatory, legislative and reputational risks

The Group's operations are subject to extensive regulatory requirements, particularly in relation to its manufacturing operations and employment policies. Changes in laws and regulations and their enforcement may adversely impact the Group's operations in terms of costs, changes to business practices and restrictions on activities which could damage the Group's reputation and brand.

(c) Employees

The Group's success depends on its ability to continue to attract, motivate and retain highly qualified employees. The highly qualified employees required by the Group in various capacities are sometimes in short supply in the labour market.

(d) Intellectual property

The Group's strategy of licensing technology depends upon maintaining effective protection of its intellectual properties worldwide. Protection is afforded by a combination of trademarks, patents, secrecy, confidentiality agreements and the structuring of legal contracts relating to key licensing, engineering and supply arrangements. Unauthorised use of the Group's intellectual property may adversely impact its ability to license the technology and lead to additional expenditure to enforce legal rights. The wide geographical spread of our products increases this risk due to the increasingly varied and complex laws and regulations in which we seek to protect the Group's intellectual property.

(e) Litigation

During the period the group terminated its licence agreement with Diamond Wood who subsequently served a notice of arbitration against Accsys. Further details are provided in note 28.

**Greenhouse gas ('GHG') emissions**

The table below represents all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 for our manufacturing facility in Arnhem, the Netherlands.

| | **2014** | **2013** |
|---|---|---|
| | **kg $CO_2$eq** | **kg $CO_2$eq** |
| Electricity, heat, steam and cooling for own use - GROSS | 2,800,294 | 2,292,045 |
| Electricity, heat, steam and cooling for own use - NET (including Renewable Energy Credits) | 40,211 | 49,128 |
| Combustion of fuel & operation of production facility (MP4), in Arnhem, the Netherlands | 2,263,107 | 2,194,196 |
| TOTAL - GROSS | 5,063,401 | 4,486,241 |
| TOTAL - NET (including Renewable Energy Credits) | 2,303,318 | 2,243,324 |
| Chosen intensity measurement: Emissions per cubic meter Accoya produced - GROSS | 210 | 303 |
| **Chosen intensity measurement: Emissions per cubic meter Accoya produced - NET (including Renewable Energy Credits)** | **95** | **151** |

Notes:
- Due to unavailability of data, GHG emissions related to our offices and staff travel our not included. Emissions have been calculated following the GHG Protocol - Corporate Accounting and Reporting (revised edition) using the following databases: IPCC 2006 Guidelines for National Greenhouse Gas Inventories, 2007 IPCC Fourth Assessment Report and Eco-Invent v3.
- Following Environmental Reporting Guidelines of Defra (2013), carbon offsets due to e.g. purchase of Renewable Energy Credits may be accounted for separately as a "NET" figure, while the original electricity consumption figures are presented as a "GROSS" figure.
- Following the same (Defra 2013) guidelines, the emissions associated with our supply chain (inputs and outputs) are not included in the figures above, for readers that are interested in the supply chain related figures we refer to our publicly available carbon footprint report: http://www.accoya.com/wp-content/uploads/2013/09/Verco-Cradle-to-gate-carbon-footprint-update-2012.pdf.

Further details concerning the environmental impact of our products as a whole are detailed in the Sustainability Report, including an assessment of the overall life cycle of Accoya.

**Directors**

The Directors of the Company during the year and up to the date of signing the financial statements were:

Paul Clegg
Hans Pauli
Gordon Campbell (Died, 26 April 2014)
Patrick Shanley
Montague John 'Nick' Meyer
William Rudge

**Directors' indemnities**

The Company maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its Directors.

**Employment policies**

The Group operates an equal opportunities policy from recruitment and selection, through training and development, appraisal and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status or sexual orientation. All decisions relating to employment practises will be objective, free from bias and based solely upon work criteria and individual merit.

17% of employees in the period were female. 10% of the senior management team were female and none of the Board of Directors was female.

**Health and safety**

Health and safety is given top priority at all levels of the Group, in particular taking into account the chemical industry in which Accsys operates. Group companies have a responsibility to ensure that all reasonable precautions are taken to provide and maintain working conditions for employees and visitors alike, which are safe, healthy and in compliance with statutory requirements and appropriate codes of practice.

The avoidance of occupational accidents and illnesses is given a high priority. Detailed policies and procedures are in place to minimise risks and ensure appropriate action is understood in the event of an incident. A dedicated health and safety officer is retained at the Group's manufacturing facility.

**Significant shareholdings**

So far as the Company is aware (further to formal notification), the following shareholders held legal or beneficial interests in ordinary shares of the Company exceeding 3%:

- Royal Bank of Canada 5.73%
- OP-Pohjola Group Central Cooperative 5.55%
- INEOS 5.43%
- OP-Henderson Global Investors 5.16%
- The London & Amsterdam Trust Company Limited 5.13%
- FIL Limited (formerly known as Fidelity International Limited) 4.93%
- Invesco Limited 4.87%
- Saad Investments Company Limited 3.92%
- Zurab Lysov 3.71%

There are no restrictions in respect of voting rights.

**Going concern**

The Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future. Further details are set out in Note 1 to these financial statements.

**Corporate Governance**

The company's statement on corporate governance can be found in the corporate governance report on pages 30 to 31 of these financial statements. The corporate governance report forms part of this directors' report and is incorporated into it by cross-reference

**Disclosure of information to auditors**

Each of the persons who is a Director at the date of the approval of the Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**Independent Auditors**

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the annual general meeting.

**Directors' responsibilities pursuant to DTR4**

The Directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and the parent Company, together with a description of the principal risks and uncertainties that they face.

**By order of the Board**

**Angus Dodwell**
**Company Secretary**
**2 July 2014**

Details of the Company's corporate governance arrangements are set out below. The Board of Directors acknowledges the importance of the Principles set out in The UK Corporate Governance Code issued by the Financial Reporting Council. Neither the 2010 or 2012 UK Corporate Governance Code are compulsory for AIM listed or Euronext listed companies. The Board has applied the principles as far as practicable and appropriate for a relatively small public company.

**The Board of Directors**

During the period, the Board comprised a Non-executive Chairman, two Non-executive Directors and three Executive Directors. Gordon Campbell, the Non-executive Chairman in the period, very sadly died in April 2014. Patrick Shanley was appointed Chairman while a permanent replacement is being considered.

The Board meets regularly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. All Directors have access to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

During the year, all serving Directors attended the quarterly Board meetings that were held. In addition to the scheduled meetings there is frequent contact between all the Directors in connection with the Company's business including Audit and Nomination and Remuneration committee meetings which are held as required, but as a minimum twice per annum.

Directors are subject to re-election by the shareholders at Annual General Meetings. The Articles of Association provide that Directors will be subject to re-election at the first opportunity after their appointment and the Board submit to re-election at intervals of three years.

Day to day operating decisions are made by the Senior Management Team of which the Chief Executive Officer, the Chief Operating Officer and Finance Director are members.

**Audit Committee**

The Audit Committee consists of Patrick Shanley (Chairman), Nick Meyer and, until April 2014, Gordon Campbell. The Audit Committee meets at least twice a year and is responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board. The Committee also discusses the scope of the audit and its findings and considers the appointment and fees of the external auditors. The Audit Committee continues to believe that it is not currently appropriate for the Company to maintain a dedicated internal audit function due to its size.

The Audit Committee considers the independence and objectivity of the external auditors on an annual basis, with particular regard to non-audit services. The non-audit fees are considered by the Board not to affect the independence or objectivity of the auditors. The Audit Committee monitors such costs in the context of the audit fee for the period, ensuring that the value of non-audit service does not increase to a level where it could affect the auditors' objectivity and independence. The Board also receives an annual confirmation of independence from the auditors.

**Nominations & Remuneration Committee**

The Nominations and Remuneration Committee consists of Nick Meyer (Chairman), Patrick Shanley and, until April 2014, Gordon Campbell. The Committee's role is to consider and approve the nomination of Directors and the remuneration and benefits of the Executive Directors, including the award of share options and bonus share awards. In framing the Company's remuneration policy, the Nominations & Remuneration Committee has given full consideration to Section D of The UK Corporate Governance Code.

**Internal Financial Control**

The Board is responsible for establishing and maintaining the Company's system of internal financial control and places importance on maintaining a strong control environment. The key procedures which the Directors have established with a view to providing effective internal financial control are as follows:

- The Company's organisational structure has clear lines of responsibility;
- The Company prepares a comprehensive annual budget that is approved by the Board. Monthly results are reported against the budget and variances are closely monitored by the Directors; and
- The Board is responsible for identifying the major business risks faced by the Company and for determining the appropriate courses of action to manage those risks.

The Directors recognise, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss.

**Relations with shareholders**

Communications with shareholders are given high priority.

There is regular dialogue with shareholders including presentations after the Company's preliminary announcement of the year-end results and six monthly results. The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that the Directors are available at Annual General Meetings to answer questions.

**Directors' attendance record**

The attendance of individual Directors at meetings of the Board and its committees in the year under review was as follows:

| | **Board** | | **Audit Committee** | | **Nominations & Remuneration Committee** | |
|---|---|---|---|---|---|---|
| **Number of meetings** | **Attended[1]** | **Serving** | **Attended** | **Serving** | **Attended** | **Serving** |
| Gordon Campbell | 7 | 13 | 3 | 3 | 4 | 4 |
| Paul Clegg | 11 | 13 | 3 | - | 3 | - |
| Hans Pauli | 10 | 13 | 3 | - | - | - |
| Patrick Shanley | 7 | 13 | 3 | 3 | 4 | 4 |
| Montague John 'Nick' Meyer | 7 | 13 | 3 | 3 | 4 | 4 |
| William Rudge | 11 | 13 | 3 | - | - | - |

Whilst all Directors are not members of the Board Committees they attend by invitation.

Figures in the left hand column denote the number of meetings attended and figures in the right hand column denote the number of meetings held whilst the individual held office.

Notes

1 A number of board committee meetings were held in the year in addition to the scheduled board meetings in order to address certain routine matters such as the issue of shares in respect of the Employee Share Scheme.

## Statement of Directors' responsibilities

**Directors' responsibilities**

The Directors are responsible for preparing the Annual Report, the Remuneration 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 prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively;
- 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 the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Accsys Technologies PLC

## Consolidated statement of comprehensive income for the year ended 31 March 2014

| | Note | 2014 €'000 Total | 2013 €'000 Total |
|---|---|---|---|
| Accoya® wood revenue | | 29,293 | 16,555 |
| Licence revenue | | 1,134 | 553 |
| Other revenue | | 3,085 | 1,714 |
| **Total revenue** | 2 | 33,512 | 18,822 |
| **Total cost of sales** | | (25,753) | (15,474) |
| **Gross profit** | | 7,759 | 3,348 |
| **Other operating costs** | 3 | (14,973) | (13,548) |
| **Operating loss** | 6 | (7,214) | (10,200) |
| Share of joint venture loss | 7 | (905) | (430) |
| Finance income | 8 | 155 | 206 |
| Finance expense | 9 | (226) | (244) |
| **Loss before taxation** | | (8,190) | (10,668) |
| Tax charge | 10 | (699) | (355) |
| **Loss for the period** | | (8,889) | (11,023) |
| (Loss)/Gain arising on translation of foreign operations, which could subsequently be reclassified into profit or loss | | (36) | 14 |
| **Total comprehensive loss for the year** | | (8,925) | (11,009) |
| **Basic and diluted loss per ordinary share** | 12 | €(0.02) | €(0.03) |

The notes on pages 22 to 46 form part of these financial statements.

## Accsys Technologies PLC

## Consolidated statement of financial position at 31 March 2014

Registered Company 05534340

| | Note | 2014 €'000 | 2013 €'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 14 | 8,333 | 8,226 |
| Investment in joint venture | | 340 | 62 |
| Property, plant and equipment | 15 | 20,740 | 22,271 |
| Available for sale investments | 16 | - | - |
| Deferred tax | 17 | - | 866 |
| | | 29,413 | 31,425 |
| **Current assets** | | | |
| Inventories | 19 | 6,053 | 4,860 |
| Trade and other receivables | 20 | 4,477 | 3,688 |
| Cash and cash equivalents | | 15,185 | 20,467 |
| Corporation tax | | 446 | 623 |
| | | 26,161 | 29,638 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | (5,557) | (3,357) |
| Obligation under finance lease | 24 | (264) | (264) |
| | | (5,821) | (3,621) |
| **Net current assets** | | 20,340 | 26,017 |
| **Non-current liabilities** | | | |
| Obligation under finance lease | 24 | (1,871) | (1,924) |
| | | (1,871) | (1,924) |
| **Net assets** | | 47,882 | 55,518 |
| **Equity and reserves** | | | |
| Share capital - Ordinary shares | 22 | 4,392 | 4,332 |
| Share premium account | | 128,648 | 128,588 |
| Capital redemption reserve | | 148 | 148 |
| Warrants reserve | | 235 | 235 |
| Merger reserve | | 106,707 | 106,707 |
| Accumulated loss | | (192,223) | (184,511) |
| Own shares | | (47) | (39) |
| Foreign currency translation reserve | | 22 | 58 |
| **Total equity** | | 47,882 | 55,518 |

The financial statements were approved by the Board and authorised for issue on 2 July 2014, and signed on its behalf by;

Paul Clegg )
William Rudge ) **Directors**

The notes on pages 22 to 46 form part of these financial statements.

## Accsys Technologies PLC

## Consolidated statement of changes in equity for the year ended 31 March 2014

| | Share capital Ordinary €000 | Share premium €000 | Capital redemp-tion reserve €000 | Warrant reserve €000 | Merger reserve €000 | Own Shares €000 | Foreign currency trans-lation reserve €000 | Retained earnings €000 | Total €000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2012** | 4,040 | 124,887 | 148 | 82 | 106,707 | - | 44 | (174,415) | 61,493 |
| Total comprehensive income/(expense) for the period | - | - | - | - | - | - | 14 | (11,023) | (11,009) |
| Expiry of warrants | - | 82 | - | (82) | - | - | - | - | - |
| Share based payments | - | - | - | - | - | - | - | 927 | 927 |
| Shares issued | 292 | - | - | - | - | (39) | - | - | 253 |
| Premium on shares issued | - | 3,619 | - | - | - | - | - | - | 3,619 |
| Share Warrants issued | - | - | - | 235 | - | - | - | - | 235 |
| **Balance at 31 March 2013** | 4,332 | 128,588 | 148 | 235 | 106,707 | (39) | 58 | (184,511) | 55,518 |
| Total comprehensive income/(expense) for the period | - | - | - | - | - | - | (36) | (8,889) | (8,925) |
| Share based payments | - | - | - | - | - | - | - | 1,177 | 1,177 |
| Shares issued | 60 | - | - | - | - | (8) | - | - | 52 |
| Premium on shares issued | - | 60 | - | - | - | - | - | - | 60 |
| **Balance at 31 March 2014** | 4,392 | 128,648 | 148 | 235 | 106,707 | (47) | 22 | (192,223) | 47,882 |

Share capital is the amount subscribed for shares at nominal value (note 22).

Share premium account represents the excess of the amount subscribed for share capital over the nominal value of these shares, net of share issue expenses. Share issue expenses comprise the costs in respect of the issue by the Company of new shares.

Capital redemption reserve represents the amounts transferred from share capital on redemption of deferred shares.

Merger reserve arose prior to transition to IFRS when merger accounting was adopted.

Own shares represents 4,765,666 shares issued to an Employee Benefit Trust at nominal value on 5 July 2013. These shares shall vest if the employees, including the Executive Directors, remain in employment with the Company to the vesting date, being 1 July 2014 (subject to certain other provisions including good-leaver, take-over and committee discretion provisions). See note 13.

Shares issued in the prior year together with share premium arose from the subscription for 23,529,412 new ordinary shares in Accsys, at a price of €0.17 per share by INEOS Industries Holdings Limited and 1,698,869 shares issued under the Employee Share Participation Plan. See note 13. At the same time the Company executed a warrant instrument in favour of INEOS, allowing INEOS the opportunity to purchase up to a further 16,468,236 shares at a price of €0.21 per share at certain times until October 2016. The warrant reserve represents the value attributable to these warrants. During the prior period, €82,000 attributable to previously issued warrants was transferred to retained earnings as the warrants expired.

Foreign currency translation reserve arises on the re-translation of the Group’s USA subsidiary’s net assets which are denominated in a different functional currency, being US dollars.

Accumulated losses represent the cumulative loss of the Group attributable to the owners of the parent.

The notes on pages 22 to 46 form part of these financial statements.

## Accsys Technologies PLC

## Consolidated statement of cash flow for the year ended 31 March 2014

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| **Loss before taxation** | (8,190) | (10,668) |
| *Adjustments for:* | | |
| Amortisation of intangible assets | 352 | 306 |
| Depreciation of land, property, plant and equipment | 2,024 | 1,950 |
| Recognition of reduction of investment in joint venture | 922 | 438 |
| Net loss/(gain) on disposal of property, plant and equipment | 77 | (113) |
| Net finance expense | 71 | 39 |
| Equity-settled share-based payment expenses | 1,177 | 927 |
| **Cash flows from operating activities before changes in working capital** | (3,567) | (7,121) |
| (Decrease) in trade and other receivables | (253) | (12) |
| (Increase) in inventories | (1,194) | (1,739) |
| Increase/(decrease) in trade and other payables | 1,757 | (66) |
| **Net cash used by operating activities before tax** | (3,257) | (8,938) |
| **Tax received** | 344 | 795 |
| **Net cash flows from operating activities** | (2,913) | (8,143) |
| **Cash flows from investing activities** | | |
| Interest received | 124 | 206 |
| Expenditure on capitalised internal development | (459) | (861) |
| Disposal of property, plant and equipment | - | 1,699 |
| Purchase of property, plant and equipment | (572) | (293) |
| Purchase of intangible assets | (23) | (44) |
| Investments in joint ventures | (1,200) | (500) |
| **Net cash used by investing activities** | (2,130) | 207 |
| **Cash flows from financing activities** | | |
| Interest paid | (226) | (244) |
| Repayment of finance lease | (54) | (36) |
| Proceeds from issue of share capital | 70 | 4,112 |
| Share issue costs | - | (15) |
| **Net cash from financing activities** | (210) | 3,817 |
| **Net decrease in cash and cash equivalents** | (5,253) | (4,119) |
| Effect of exchange rate changes on cash and cash equivalents | (29) | 12 |
| Opening cash and cash equivalents | 20,467 | 24,574 |
| **Closing cash and cash equivalents** | 15,185 | 20,467 |

The notes on pages 22 to 46 form part of these financial statements.

## 1. Accounting Policies

### General information

The financial information set out in these preliminary results does not constitute the company's statutory accounts for the periods ended 31 March 2014 or 31 March 2013. Statutory accounts for the period ended 31 March 2013 have been filed with the Registrar of Companies and those for the period ended 31March 2014 will be delivered to the Registrar in due course; both have been reported on by the auditors. The auditors' report on the Annual Report and Financial Statements for the period ended 31 March 2013 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The auditors' report on the Annual Report and Financial Statements for the period ended 31 March 2014 is unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

### Basis of accounting

The Group's financial statements have been prepared under the historical cost convention (except for certain financial instruments and equity investments which are measured at fair value), in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements under adopted IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

### Going Concern

The financial statements are prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future, which is deemed to be at least 12 months from the date these financial statements are approved.

As part of the Group's going concern review, the Directors have reviewed the Group's trading forecasts and working capital requirements for the foreseeable future. These forecasts indicate that, in order to continue as a going concern, the Group is dependent on the achievement of certain operating performance measures relating to the production and sales of Accoya® wood from the plant in Arnhem and the collection of on-going working capital items in line with internally agreed budgets.

The Directors have considered the internally agreed budgets and performance measures and believe that appropriate controls and procedures are in place or will be in place to make sure that these are met. The Directors believe that while some uncertainty inherently remains in achieving the budget, in particular in relation to market conditions outside of the Group's control, that there are a sufficient number of alternative actions and measures that can be taken in order to achieve the Group's medium and long term objectives.

Therefore the Directors believe that the going concern basis is the most appropriate on which to prepare the financial statements.

### Risks and uncertainties

The net assets as at 31 March 2014 of €48m contain balances in relation to the Group's goodwill, capitalised internal development costs and intellectual property rights of €8.3m. The recoverability of these balances is dependent upon the Group's existing licensees progressing with the completion of their manufacturing facilities or the signing of other new licence agreements. While the scope and timing of the production facilities to be built by the Group's existing and future licensees remains uncertain, the Directors remain confident that revenue from either existing licensees or new licensees will be generated, demonstrating the recoverability of these balances.

In addition, the carrying value of the €20.7m of property, plant and equipment, which primarily relate to the Arnhem plant, are dependent upon the future profitable sales of Accoya® wood made there. The price of the Accoya® wood and the raw materials and other inputs vary according to market conditions outside of the Group's control. Should the price of the raw materials increase greater than the sales price or in a way which no longer makes as Accoya® competitive, then the carrying value of the property, plant and equipment may be in doubt and become impaired. The Directors consider that the current market and best estimates of future prices means that this risk is limited.

### Changes in accounting policies

In the current period, the following new and revised Standards and Interpretations have been adopted. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

- IFRS 13 'Fair Value Measurement' - The Group has applied IFRS 13 for the first time in the current period. IFRS 13 establishes a single source of guidance for fair value measurements and associated disclosures. The scope of IFRS 13 is broad, applying to both financial instruments and non-financial instruments. The application of IFRS 13 has not had any impact on the amounts recognised in the consolidated financial statements.
- IAS 1 (amendment) 'Financial Statement Presentation' - This amendment requires that items of other comprehensive are identified between those that could be subsequently reclassified into profit and loss and those which could not.

### Business combinations

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Group as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated statement of financial position, the acquirer's identifiable assets, liabilities, and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

As allowed under IFRS 1, some business combinations effected prior to transition to IFRS, were accounted for using the merger method of accounting. Under this method, assets and liabilities are included in the consolidation at their book values, not fair values, and any differences between the cost of investment and net assets acquired were taken to the merger reserve. The majority of the merger reserve arose from a corporate restructuring in the year ended 31 March 2006 which introduced Accsys Technologies PLC as the new holding company.

**Joint ventures**

A jointly controlled entity is an entity in which the Group holds a long term interest and shares joint control over strategic, financial and operating decisions with one or more other venturers under a contractual arrangement. The Group's share of the assets, liabilities, income, expenditure and cash flows of such jointly controlled entities are accounted for using the equity method. The equity method records the Group's share of the results of the joint venture entity on a separate line in the Group's financial statements.

The total carrying values of investments in joint ventures represent the cost of each investment including the carrying value of any goodwill, the share of post-acquisition retained earnings, any other movements in reserves and any long term debt interests which in substance form part of the Group's net investment. The carrying values of joint ventures are reviewed on a regular basis and if an impairment in value has occurred, the carrying value is impaired in the period in which the relevant circumstances are identified. The Group's share of a joint venture's losses in excess of its interest in that associate is not recognised unless the Group has an obligation to fund such losses.
Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

**Revenue recognition**

Revenue is measured at the fair value of the consideration receivable. Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and that the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

**Manufacturing revenue**
Revenue is recognised in respect of the sale of goods when the significant risks and rewards of ownership of the goods have been passed to the buyer, the timing of which is dependent on the particular shipment terms. When a customer provides untreated wood to be processed by the Group in order to produce Accoya®, revenue is recognised when the Group's obligations under the relevant customer contract have been substantially completed, which is before the finished Accoya® has been collected by the customer. Manufacturing revenue includes the sale of Accoya® wood and other revenue, principally relating to the sale of acetic acid.

**Licence fee income**
Licence fee income is recognised over the period of the relevant agreements according to the specific terms of each agreement or the quantities and/or values of the licensed product sold. The accounting policy for the recognition of licence fees is based upon an assessment of the work required before the licence is signed and subsequently during the design, construction and commissioning of the licensees' plant, with an appropriate proportion of the fee recognised upon signing and the balance recognised as the project progresses to completion. The amount of any cash or billings received but not recognised as income is included in the financial statements as deferred income and shown as a liability.

**Finance income**

Interest accrues using the effective interest method, i.e. the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**Finance expense**

Finance expenses include the fees associated with the Group's credit facilities which are expensed over the period which the Group has access to the facilities.

Finance expenses also include an allocation of finance charges in respect of the sale and leaseback of the Arnhem land and buildings accounted for as a finance lease. The total finance charge (calculated as the difference between the total minimum lease payments and the liability at the inception of the lease) is allocated over the life of the lease using the sum-of-digits method.

**Share based payments**

The Company awards share options and nil cost options to acquire shares of the Company to certain Directors and employees. The Company also awards bonuses to certain Directors and employees in the form of the award of deferred shares of the Company.

In addition the Company has established an Employee Share Participation Plan under which employees subscribe for new shares which are held by a trust for the benefit of the subscribing employees. The Shares are released to employees after one year, together with an additional, matching share on a 1 for 1 basis.

The fair value of options, deferred shares and matching shares granted are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and is charged to the statement of comprehensive income over the vesting period during which the employees become unconditionally entitled to the options or shares.

The fair value of share options granted is measured using a modified Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options which eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

**Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

**Pensions**

The Group contributes to certain defined contribution pension and employee benefit schemes on behalf of its employees. These costs are charged to the statement of comprehensive income on an accruals basis.

**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date together with any adjustment to tax payable in respect of previous years. Current tax includes the expected impact of claims submitted by the Group to tax authorities in respect of enhanced tax relief for expenditure on research and development.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Recognition of deferred tax assets is restricted to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**Foreign currencies**

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (the functional currency). For the purposes of the consolidated financial statements, the results and financial position of each Group company are expressed in Euro, which is the functional currency of the parent Company, and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currencies are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average monthly exchange rates prevailing in the month in which the transaction took place. Exchange differences arising, if any, are recognised in other comprehensive income and the foreign currency translation reserve.

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with the attached conditions. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset they are credited to a deferred income account and released to the statement of comprehensive income over the expected useful life of the relevant asset on a straight line basis.

**Goodwill**

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the identifiable assets and liabilities acquired. It is capitalised, and is subject to annual impairment reviews by the Directors. Any impairment arising is charged to the statement of comprehensive income.

**Other intangible assets**

Intellectual property rights, including patents, which cover a portfolio of novel processes and products, are shown in the financial statements at cost less accumulated amortisation and any amounts by which the carrying value is assessed during an annual review to have been impaired. At present, the useful economic life of the intellectual property is considered to be 20 years.

Internal development costs are incurred as part of the Group's activities including new processes, process improvements, identifying new species and improving the Group's existing products. Research costs are expensed as incurred. Development costs are capitalised when all of the criteria set out in IAS 38 'Intangible Assets' (including criteria concerning technical feasibility, ability and intention to use or sell, ability to generate future economic benefits, ability to complete the development and ability to reliably measure the expenditure) have been met. These internal development costs are amortised on a straight line basis over their useful economic life, between 10 and 20 years.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment charged. Cost includes the original purchase price of the asset as well as costs of bringing the asset to the working condition and location of its intended use. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset, except freehold land, over its expected useful life on a straight line basis, as follows:

| | |
|---|---|
| Plant and machinery | These assets comprise pilot plants and production facilities. These facilities are depreciated from the date they become available for use at rates applicable to the asset lives expected for each class of asset, with rates between 5% and 20%. |
| Office equipment | Between 20% and 50%. |
| Leased land | Land held under a finance lease is depreciated over the life of the lease. |
| Freehold land | Freehold land is not depreciated. |

**Impairment of non-financial assets**

The carrying amount of the non-current non-financial assets of the Group is compared to the recoverable amount of the assets whenever events or changes in circumstances indicate that the net book value may not be recoverable, or in the case of goodwill, annually. The recoverable amount is the higher of value in use and the fair value less cost to sell. In assessing the value in use, the expected future cash flows from the assets are determined by applying a discount rate to the anticipated pre-tax future cash flows. An impairment charge is recognised in the statement of comprehensive income to the extent that the carrying amount exceeds the assets' recoverable amount. The revised carrying amounts are amortised or depreciated in line with Group accounting policies. A previously recognised impairment loss, other than on goodwill, is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the statement of comprehensive income and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) for purposes of assessing impairment.

**Leases**

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

**Inventories**

Raw materials, which consist of unprocessed timber and chemicals used in manufacturing operations are valued at the lower of cost and net realisable value. The basis on which cost is derived is a first-in, first-out basis.

Finished goods, comprising processed timber, are stated at the lower of weighted average cost of production or net realisable value. Costs include direct materials, direct labour costs and production overheads (including the depreciation/depletion of relevant property and plant and equipment) absorbed at an appropriate level of capacity utilisation. Net realisable value represents the estimated selling price less all expected costs to completion and costs to be incurred in selling and distribution.

**Financial assets**

Financial assets are classified as cash and cash equivalents, available for sale investments and loans and receivables, depending on the purpose for which the asset was acquired. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Except where a reliable fair value cannot be obtained, unlisted shares held by the Group are classified as available for sale investments and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, with the exception of impairment losses which are recognised directly in profit or loss. Where an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the profit or loss in the year. Where it is not possible to obtain a reliable fair value, these investments are held at cost less provision for impairment.

Loans and receivables, which comprise non-derivative financial assets with fixed and determinable payments that are not quoted on an active market are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

**Trade and other receivables**
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally from the provision of goods and services to customers. Trade receivables are initially recognised at fair value less an allowance for any uncollectible amounts. A provision for impairment is made when there is objective evidence that the Group will not be able to collect debts. Bad debts are written off when identified.

**Cash and cash equivalents**
Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits, including liquidity funds, with an original maturity of three months or less. For the purpose of the statement of consolidated cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Financial liabilities**

**Other financial liabilities**
Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

**Share capital**

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's shares are classified as equity instruments.

**Accounting estimates and judgements**

In preparing the Consolidated Financial Statements, management has to make judgments on how to apply the Group's accounting policies and make estimates about the future. The critical judgments that have been made in arriving at the amounts recognised in the Consolidated Financial Statements and the key sources of estimation and uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year are discussed below:

**Revenue recognition**
The Group has considered the criteria for the recognition of licence fee income over the period of the agreement and is satisfied that the recognition of such revenue is appropriate. The recognition of licence fees is based upon an assessment of the work required before the licence is signed and subsequently during the construction and commissioning of the licensees' plant, with an appropriate proportion of the fee recognised upon signing and the balance recognised as the project progresses to completion. The Group also considers the recoverability of amounts before recognising them as income.

**Goodwill**
The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of judgments in relation to discount rates and future forecasts. (See note 14)

**Intellectual property rights and property, plant and equipment**
The Group tests the carrying amount of the intellectual property rights and property, plant and equipment whenever events or changes in circumstances indicate that the net book value may not be recoverable. These calculations require the use of estimates in respect of future cash-flows from the assets by applying a discount rate to the anticipated pre-tax future cash-flows. The Group also reviews the estimated useful lives at the end of each annual reporting period. (See note 14)

**Inventories**
The Group reviews the net realisable value of, and demand for, its inventory on a monthly basis to provide assurance that recorded inventory is stated at the lower of cost and net realisable value after taking into account the age and condition of inventory. (See note 19)

**Available for sale investments**
The Group has an investment in unlisted equity shares carried at nil value. The investment is valued at cost less any impairment as a reliable fair value cannot be obtained since there is no active market for the shares and there is currently uncertainty around the future funding of the business. The Group makes appropriate enquiries and considers all of the information available to it in order to assess whether any impairment has occurred. (See note 16)

**New standards and interpretations in issue but not yet effective at the date of authorisation of these financial statements:**

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU).

- IFRS 9 'Financial Instruments'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IAS 27 (amendments) 'Separate financial statements'
- IAS 28 (amendments) 'Associates and joint ventures'
- IAS 32 (amendments) 'Financial instruments presentation'
- IAS 36 (amendments) 'Recoverable Amount Disclosures for Non-Financial Assets'

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods.

## 2. Segmental reporting

The Group's business is the development, commercialisation and licensing of proprietary technology for the manufacture of Accoya® wood, Tricoya® wood elements and related acetylation technologies. Segmental reporting is divided between licensing activities, the manufacturing and sale of Accoya® and research and development activities.

| Result by Segment: | Licensing, Management & Business Development | |
|---|---|---|
| | 2014 €'000 | 2013 €'000 |
| **Revenue** | 1,134 | 553 |
| **Cost of sales** | - | - |
| **Gross profit** | 1,134 | 553 |
| **Other operating costs** | (7,680) | (6,780) |
| **Impairment of licensee receivables** | - | - |
| **Loss from operations** | (6,546) | (6,227) |
| **Loss from Operations** | (6,546) | (6,227) |
| **Depreciation and amortisation** | 412 | 347 |
| **EBITDA** | (6,134) | (5,880) |
| | **Manufacturing** | |
| **Revenue** | 32,378 | 18,269 |
| **Cost of sales** | (25,753) | (15,474) |
| **Gross profit** | 6,625 | 2,795 |
| **Other operating costs** | (6,142) | (5,528) |
| **Profit/(loss) from operations** | 483 | (2,733) |
| **Profit/(loss) from Operations** | 483 | (2,733) |
| **Depreciation and amortisation** | 1,910 | 1,833 |
| **EBITDA** | 2,394 | (900) |
| | **ResearchandDevelopment** | |
| **Revenue** | - | - |
| **Cost of sales** | - | - |
| **Gross profit/(loss)** | - | - |
| **Other operating costs** | (1,151) | (1,240) |
| **Loss from operations** | (1,151) | (1,240) |
| **Loss from Operations** | (1,151) | (1,240) |
| **Depreciation and amortisation** | 54 | 76 |
| **EBITDA** | (1,096) | (1,164) |
| | **Total** | |
| **Revenue** | 33,512 | 18,822 |
| **Cost of sales** | (25,753) | (15,474) |
| **Gross profit** | 7,759 | 3,348 |
| **Other operating costs** | (14,973) | (13,548) |
| **Impairment of licensee receivables** | - | - |
| **Loss from operations** | (7,214) | (10,200) |
| Share of joint venture loss | (905) | (430) |
| Finance income | 155 | 206 |
| Finance expense | (226) | (244) |
| **Loss before taxation** | (8,190) | (10,667) |
| **Loss from Operations** | (7,214) | (10,200) |
| Share of joint venture loss | (905) | (430) |
| Depreciation and amortsation | 2,376 | 2,256 |
| **EBITDA** | (5,743) | (8,374) |

### Licensing, Management & Business Development

Revenue is attributable to fees in relation to the licensing of the Group's technology to third parties.

Other operating costs include all remaining costs unless they are directly attributable to Manufacturing or Research and Development. This includes marketing, business development, management and the majority of the Group's administration costs including the head office in Windsor as well as the US office.

Headcount = 21 (2013: 21)

### Manufacturing

Revenue includes the sale of Accoya® and other revenue, principally relating to the sale of acetic acid.

All costs of sales are allocated against manufacturing activities in Arnhem unless they can be directly attributable to a licensee.

Other operating costs include depreciation of the Arnhem property, plant and equipment together will all other costs associated with the operation of the Arnhem manufacturing site, including directly attributable administration costs.

Headcount = 67 (2013: 62)

### Research and Development

Costs are associated with various R&D activities associated with Accoya® and processes. The costs are reported excluding €455,000 of costs which have been capitalised in accordance with international financial reporting standards. (2013: €861,000).

Headcount = 13 (2013: 13)

Assets and liabilities cannot be readily allocated to the three segments and therefore no additional segmental information has been disclosed.

| Analysis of Revenue by geographical area of customers: | **2014 €'000** | **2013 €'000** |
|---|---|---|
| UK and Ireland | 11,300 | 3,983 |
| Benelux | 8,822 | 6,842 |
| Rest of Europe | 7,501 | 4,611 |
| Americas | 3,376 | 1,585 |
| Asia-Pacific | 1,901 | 1,292 |
| Rest of World | 612 | 509 |
| | 33,512 | 18,822 |

Revenue generated from one customer exceeded 10% of Group revenue of 2014, represented by 43% of the revenue from the United Kingdom and relates to manufacturing revenue. Revenue generated from no single customer exceeded 10% of Group revenue in 2013.

| Analysis of non-current assets (Other than financial assets and deferred tax): | **2014 €'000** | **2013 €'000** |
|---|---|---|
| UK | 4,491 | 4,133 |
| Other countries | 20,690 | 22,195 |
| Un-allocated - Goodwill | 4,231 | 4,231 |
| | 29,412 | 30,559 |

The segmental assets in the current year and the previous year were predominantly held in Europe. Additions to property, plant, equipment and intangible assets in the current year and the previous year were predominantly incurred in Europe.

### 3. Other operating costs

Other operating costs consist of the operating costs, other than the cost of sales, associated with the operation of the plant in Arnhem and the offices in Dallas and Windsor:

| | **2014 €'000** | **2013 €'000** |
|---|---|---|
| Sales and marketing | 2,882 | 2,908 |
| Research and development | 1,151 | 1,240 |
| Depreciation and amortisation | 2,377 | 2,256 |
| Other operating costs | 2,243 | 2,104 |
| Administration costs | 6,320 | 5,040 |
| | 14,973 | 13,548 |

During the period €726,000 of Administration costs related to legal costs incurred in the period associated with the Diamond Wood arbitration. (See Note 28)

During the period, €459,000 (2013: €953,000) of development costs were capitalised and included in intangible fixed assets. This includes €152,000 in respect of the Accoya® licence Process Design Package (2013: €456,000).

Administration costs also include the costs associated with the Group's head office in Windsor, the US office in Dallas together with business development and management costs.

## 4. Employees

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Staff costs (including Directors) consist of: | | |
| Wages and salaries | 6,469 | 6,160 |
| Social security costs | 926 | 756 |
| Other pension costs | 434 | 422 |
| Share based payments | 1,177 | 927 |
| | 9,006 | 8,265 |

| The average monthly number of employees, including Executive Directors, during the year was as follows: | Number | Number |
|---|---|---|
| Administration, research and engineering | 67 | 66 |
| Operating | 34 | 30 |
| | 101 | 96 |

## 5. Directors' remuneration

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Directors' remuneration consists of: | | |
| Directors' emoluments | 894 | 829 |
| Company contributions to money purchase pension schemes | 47 | 44 |
| | 941 | 873 |

Compensation of key management personnel included the following amounts:

| | Salary, bonus and short term benefits €'000 | Pension €'000 | Share based payments charge €'000 | 2014 Total €'000 | 2013 Total €'000 |
|---|---|---|---|---|---|
| Paul Clegg | 356 | 28 | 442 | 826 | 761 |
| Hans Pauli | 242 | 12 | 139 | 393 | 365 |
| William Rudge[1] | 151 | 7 | 74 | 232 | 93 |
| | 749 | 47 | 655 | 1,451 | 1,219 |

1 - William Rudge was appointed as Finance Director on the 1 October 2012.

The Group made contributions to 3 (2013: 3) Directors' personal pension plans.

## 6. Operating loss

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| This has been arrived at after charging: | | |
| Staff costs | 9,006 | 8,265 |
| Legal costs - Diamond Wood arbitration (note 28) | 726 | - |
| Depreciation of property, plant and equipment | 2,024 | 1,950 |
| Amortisation of intangible assets | 352 | 306 |
| Operating lease rentals | 1,011 | 165 |
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 63 | 62 |
| Fees payable to the Company's auditors for other services: | | |
| - audit of the Company's subsidiaries pursuant to legislation | 80 | 79 |
| - audit related assurance services | 24 | 25 |
| - tax compliance services | 53 | 57 |
| - all other services | 27 | 5 |
| Foreign exchange losses | 65 | 65 |
| Research & Development (excluding staff costs) | 535 | 636 |
| Loss on disposal of property, plant and equipment | 77 | 114 |

## 7. Share of joint venture losses

On 5 October 2012, Accsys entered into a 50:50 joint venture with INEOS to exploit Accsys' intellectual property surrounding its proprietary Tricoya® wood elements acetylation technology and processes, which is expected to lead to the accelerated global deployment of Tricoya. The company, Tricoya Technologies Limited ('TTL'), will develop and exploit Accsys' Tricoya technology for use within MDF, particle board and wood plastic composites in a worldwide panel products market estimated to be worth more than €60 billion annually.

As part of the transaction, TTL was granted rights to exploit Accsys' Tricoya® technology and will also benefit from a licence of any intellectual property held by INEOS that may assist the joint venture in maximising the value of the Tricoya® proposition. Profits generated by TTL will be shared between Accsys and INEOS in a way that reflects each party's interest. The contribution of Accsys' Tricoya® intellectual property to the Joint Venture is reflected through a disproportionate future profit share which is expected to create significant value for Accsys.

TTL has been accounted for in the Accsys Group accounts using the equity method. The TTL results in the prior year are for the period from 5 October 2012 to 31 March 2013.

Income statement of TTL joint venture:

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Revenue | 153 | - |
| Costs: | | |
| Staff costs | 1,230 | 590 |
| Research & development (excluding staff costs) | 278 | 163 |
| Intellectual Property | 133 | 76 |
| Sales & marketing | 322 | 31 |
| Joint venture loss | 1,810 | 860 |
| Group share of joint venture loss | 905 | 430 |
| Investment in joint venture at 1 April | 62 | - |
| Group share of loss reported | (905) | (430) |
| Less elimination of mark-up on recharged staff costs | (17) | (8) |
| Investments in joint venture | 1,200 | 500 |
| Carrying value of joint venture at 31 March | 340 | 62 |

Tricoya Technologies Limited statement of financial position at 31 March 2014:

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 1,382 | 93 |
| **Current assets** | | |
| Receivables due within one year | 150 | 89 |
| Cash and cash equivalents | 499 | 324 |
| | 649 | 413 |
| **Current liabilities** | | |
| Trade and other payables | (1,302) | (366) |
| **Net current assets** | (653) | 47 |
| **Net assets** | 729 | 140 |
| 50% attributable to Accsys Technologies | 364 | 70 |
| Less elimination of mark-up on recharged costs | (17) | (8) |
| **Equity and reserves** | | |
| Share capital | 3,400 | 1,000 |
| Accumulated loss | (2,671) | (860) |
| **Total equity** | 729 | 140 |

## 8. Finance income

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Interest receivable on bank and other deposits | 155 | 206 |

## 9. Finance expense

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Arnhem land sale and leaseback finance charge | 226 | 244 |

## 10. Tax expense

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| **(a)** Tax recognised in the statement of comprehensive income comprises: | | |
| **Current tax expense** | | |
| UK Corporation tax on profits for the year | - | - |
| Research and development tax credit in respect of prior years | - | (26) |
| Research and development tax credit in respect of current year | (169) | (286) |
| | (169) | (312) |
| Overseas tax at rate of 15% | 2 | 11 |
| Overseas tax at rate of 25% | - | - |
| **Deferred Tax** | | |
| Under/(over) provision in respect of prior years | - | - |
| Utilisation of deferred tax asset | 866 | 656 |
| Total tax charge reported in the statement of comprehensive income | 699 | 355 |

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| **(b)** The tax credit for the period is lower than the standard rate of corporation tax in the UK (2012: 26%, 2011: 28%) due to: | | |
| Loss profit before tax | (8,190) | (10,668) |
| Expected tax credit at 23% (2013 - 24%) | (1,884) | (2,560) |
| Expenses not deductible in determining taxable profit | 367 | 295 |
| Over provision in respect of prior years | (383) | (7) |
| Losses transferred to deferred tax asset but not recognised | 2,420 | 2,293 |
| Effects of overseas taxation | 67 | 21 |
| Other temporary differences | (57) | 1 |
| Research and development tax credit in respect of prior years | - | 26 |
| Research and development tax credit in respect of current year | 169 | 286 |
| Total tax charge reported in the statement of comprehensive income | 699 | 355 |

## 11. Dividends Paid

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Final Dividend €Nil (2013: €Nil) per Ordinary share proposed and paid during year relating to the previous year's results | - | - |

## 12. Loss per share

The calculation of loss per ordinary share is based on loss after tax and the weighted average number of ordinary shares in issue during the year.

| Basic and diluted earnings per share | 2014 | 2013 |
|---|---|---|
| Weighted average number of Ordinary shares in issue ('000) | 437,412 | 419,650 |
| Loss for the year (€'000) | (8,889) | (11,023) |
| Basic and diluted loss per share | €(0.02) | €(0.03) |

Basic and diluted losses per share are based upon the same figures. There are no dilutive share options as these would increase the loss per share.

## 13. Share based payments

The group operates a number of share schemes which give rise to a share based payment charge. During the period, the group introduced a new Long Term Incentive Plan ('LTIP') in order to reward members of the senior management team and the executive directors. As part of the award of nil costs options under the LTIP, the recipients relinquished all share options that they held which had been awarded under the 2005 and 2008 Share Option plans. Other employees continue to hold options awarded under these earlier schemes.

In addition, the group operates an Employee Share Participation Plan, which is available to all employees, and also makes annual awards under the Employee Benefit Trust. Details of all these schemes are given below:

### Long Term Incentive Plan ('LTIP')

During the period, the group established a new Long Term Incentive Plan, the participants of which are key members of the management team. The establishment of the LTIP was approved by the shareholders at the AGM in September 2013. Further background details are set out in the Remuneration Report and were included in the Notice of 2013 Annual General Meeting.

A prerequisite of participation in the new LTIP was for the management team to agree to the cancellation of their entire outstanding share options, providing the Company with a 5% reduction in the level of dilution to make the new awards. A cancellation was agreed as the most appropriate action as it would focus the management team on the new LTIP and not on historical awards or arrangements. Details of the cancellation of the share options (previously awarded under the 2005 and 2008 Share Option schemes) are set out further below.

#### LTIP overview

Under the newly established LTIP awards can be granted on a discretionary basis to key members of the management team. During the period, an initial 'one off' grant was made in order to focus the management team on the growth of the Company over the next three years. Awards were granted in the form of nil-cost options and consist of the following 'elements':

| Element | Objective | Description |
|---|---|---|
| A | Retention based award to lock-in executives who have contributed to the turnaround | In consideration to agreeing to the cancellation of the participant's existing options, a proportion of the new share award vests on continuity of employment over the next three years.<br>To ensure there is no value shift to the participants via the cancellation, this element requires an additional three years of services from the participant and will be forfeited if the share price at the end of the performance period is below €0.13. |
| B | Performance based share award | This element aligns the participant to the future success of the Company by linking the level of vesting to EBITDA and share price growth against the constituents of the MSCI Europe Index (or another other broad based European index as deemed appropriate by the Remuneration Committee). |
| C | Exceptional performance multiplier | This element ensures that if significant value is created for shareholders then participants will be entitled to receive an appropriate proportion of this value. |

**Performance conditions**

Awards granted under the LTIP are subject to continued employment and satisfaction of the performance conditions. Performance will be measured at the end of a three year performance period for each Element.

Element A - Vesting is contingent upon continued employment for three years and share price not falling below €0.13 at the end of the performance period.

Element B - Measured against two equally weighted performance conditions:

| | Threshold | Target | Maximum |
|---|---|---|---|
| EBITDA<br>(50% of Element B) | €0m | €1.6m | €4m |
| Share price growth<br>(50% of Element B) | Median of the constituents of the MSCI Europe Index | 60th percentile of the constituents of the MSCI Europe Index | Upper quartile of the constituents of the MSCI Europe Index |
| Vesting level[1] | 25% | 60% | 100% |

Notes:
1. Vesting is on a straight line basis between the respective EBITDA and share price targets.

Element C - This element vests in full if the share price is at or above €0.26 at the end of the performance period.

**Awards made in period**

Immediately following the establishment of the new LTIP in September 2013, awards were made to members of the management team. A total of 21,393,185 nil cost options were awarded. 7,966,667 were allocated as Element A, 9,187,881 as Element B and 4,238,637 were allocated as Element C. At the same time, a total of 22,281,146 of old options were cancelled.

Element A was designed to recognise the contribution made by individuals to the turnaround of the Company and the cancellation of the existing options was a prerequisite for participation in the LTIP. The quantum of Element A for each participant was linked to the expected value of the existing options which were cancelled where there was a reasonable probability of payout. As a result, under IFRS 2, the award of Element A was accounted for as a modification of the existing share options and as the award was designed to avoid any transfer of value, the resulting share based payment charge is the same as if the existing options had not been cancelled.

Elements B and C have been accounted for as new awards with the fair value calculated based on a modified Black-Scholes model assuming inputs described below:

| **Element** | **Element B (i)** | **Element B (ii)** | **Element C** |
|---|---|---|---|
| Grant date | 19 Sep 13 | 19 Sep 13 | 19 Sep 13 |
| Share price at grant date (€) | 0.14 | 0.14 | 0.14 |
| Exercise price (€) | 0.00 | 0.00 | 0.00 |
| Expected life (years) | 3 | 3 | 3 |
| Contractual life (years) | 10 | 10 | 10 |
| Vesting conditions (Details set out above) | EBITDA | Share Price | Exeptional Multiplier |
| Risk free rate | 0.48% | 0.48% | 0.48% |
| Expected volatility | 40% | 40% | 40% |
| Expected dividend yield | 0% | 0% | 0% |
| **Fair value of option** | **€ 0.129** | **€ 0.078** | **€ 0.044** |

No LTIP options vested in the period.

**2005 and 2008 Share Option schemes**

The following share options awarded under the group's 2005 and 2008 Share Option schemes impacted the current or preceding financial year;

Options granted on 1 March 2005 fully vested during 2011. These options may be exercised until 30 March 2015. At 31 March 2014, 269,265 (2013: 269,265) of these options were outstanding with an exercise price of €0.32.

Options granted on 28 March 2007 at an exercise price of €2.59 per Ordinary share vest to one third of the options granted upon achievement of each of the following:

- Cumulative €5 million licence income recognised under Group accounting policies
- Cumulative €20 million revenue from sales of Accoya® wood
- Announcement of annual Group distributable earnings exceeding €5 million

Once vested, these options may be exercised until 31 March 2017. At 31 March 2014, 896,699 (2013: 2,343,034) of these options were outstanding at an exercise price of €1.83.

Options granted on 20 November 2007 vest to one third of the options granted upon achievement of each of the following:

- Annual Accoya® wood production exceeds 23,000m$^3$ in a financial year
- Annual Accoya® wood sales revenue exceeds €26 million in financial year
- The second pair of reactors in the wood modification plant are processing more than 25 batches per month

Once vested these options may be exercised until 20 November 2017. At 31 March 2014, 242,236 (2013: 298,900) of these options were outstanding at an exercise price of €2.58.

Options granted on 18 June 2008 vest to one third of the options granted upon achievement of each of the following:

- Announcement of audited Annual Accoya® wood sales revenue exceeds €20 million in financial year
- Announcement of audited annual Group distributable earnings exceeding €15 million
- Announcement of audited cumulative €75 million gross licence revenue recognised under Group accounting policies

Once vested these options may be exercised until 18 June 2018. At 31 March 2014, 42,498 (2013: 99,161) of these options were outstanding at an exercise price of €1.98.

Options granted on 8 December 2008 vest to one third of the options granted upon achievement of each of the following:

- Announcement of audited Annual Accoya® wood sales revenue exceeds €20 million in financial year
- Announcement of audited annual Group distributable earnings exceeding €15 million
- Announcement of audited Cumulative €75 million gross licence revenue recognised under Group accounting policies

Once vested these options may be exercised until 8 December 2018. At 31 March 2014, 206,822 (2013: 213,905) of these options were outstanding at an exercise price of €0.97.

Options granted on 19 November 2009 were fully exchanged in the period for new awards issued under the LITP. Previously, 30% of the options were to vest upon achievement of median Total Shareholder Return ('TSR'). Full vesting of the options granted was to occur upon achievement of upper quartile TSR measured over a three year period. At 31 March 2014, nil (2013: 2,557,424) of these options were outstanding at an exercise price of €0.35.

Options granted on 1 April 2010 were fully exchanged in the period for new awards issued under the LITP. Previously 30% of the options were to vest upon achievement of median TSR. Full vesting of the options granted was to occur upon achievement of upper quartile TSR measured over the three year period. At 31 March 2014, nil (2013: 1,017,354) of these options were outstanding at an exercise price of €0.32.

Options granted on 27 July 2010 were partially exchanged in the period for new awards issued under the LITP. 30% of the options vest on achievement of median TSR. Once vested, these options may be exercised until 27 July 2020. Full vesting of the options granted occurs upon achievement of upper quartile TSR measured over the three year period. At 31 March 2014, 821,620 (2013: 6,075,005) of these options were outstanding at an exercise price of €0.24.

Options granted on 1 April 2011 were fully exchanged in the period for new awards issued under the LITP. Previously, 30% of the options were to vest upon achievement of median TSR. Full vesting of the options granted was to occur upon achievement of upper quartile TSR measured over the three year period. At 31 March 2014, nil (2013: 718,173) of these options were outstanding at an exercise price of €0.17.

Options granted on 1 August 2011 were partially exchanged in the period for new awards issued under the LITP. 30% of the options vest on achievement of median TSR. Full vesting of the options granted occurs upon achievement of upper quartile TSR measured over the three year period. Once vested, these options may be exercised until 1 August 2021. At 31 March 2014, 800,000 (2013: 7,437,982) of these options were outstanding at an exercise price of €0.10.

Options granted on 2 August 2012 were fully exchanged in the period for new awards issued under the LITP. Previously, 30% of the options were to vest on achievement of median TSR. Full vesting of the options was to occur upon achievement of upper quartile TSR measured over the three year period. At 31 March 2014, nil (2013: 4,418,173) of these options were outstanding at an exercise price of €0.15.

TSR is measured on a relative basis compared to the FTSE Small Cap index over a three year period from grant date. Unless discretion is exercised by the Nomination & Remuneration Committee, all options are forfeit following an option holder's termination of contract.

The weighted average fair value of each option granted during the prior year was €0.06. No options were granted under the 2005 or 2008 Share Option schemes in the period.

The fair value of share options granted under the 2005 and 2008 Share Option Schemes during the previous years was calculated based on a modified Black-Scholes model assuming inputs shown below:

| **Grant date** | **August 2012** | **August 2011** | **April 2011** | **July 2010** | **April 2010** |
|---|---|---|---|---|---|
| Share price at grant date (€) | 0.15 | 0.10 | 0.17 | 0.34 | 0.46 |
| Exercise price (€) | 0.15 | 0.10 | 0.17 | 0.34 | 0.46 |
| Expected life (years) | 3 | 3 | 3 | 3 | 3 |
| Contractual life (years) | 10 | 10 | 10 | 10 | 10 |
| Risk free rate | 1.83% | 1.54% | 2.25% | 2.30% | 2.00% |
| Expected volatility | 85% | 85% | 85% | 60% | 60% |
| Expected dividend yield | 0% | 0% | 0% | 0.0% | 0.0% |
| **Fair value of option** | **€ 0.060** | **€ 0.040** | **€ 0.070** | **€ 0.106** | **€ 0.143** |

Volatility was estimated by reference to the historic volatility since October 2005 when the Company's shares were listed on AIM. The resulting fair value is expensed over the vesting period of the options on the assumption that a proportion of options will lapse over the service period as employees leave the Group.

**Options - total**

The following figures take into account options awarded under the LTIP in the period together with share options awarded in previous years under the 2005 and 2008 Share Option schemes.

Outstanding options granted are as follows:

| | **Number of outstanding options at 31 March** | | **Weighted average remaining contractual life, in years** | |
|---|---|---|---|---|
| **Date of grant** | **2014** | **2013** | **2014** | **2013** |
| 1 March 2005 | 269,265 | 269,265 | 0.9 | 1.9 |
| 28 March 2007 | 747,958 | 2,343,034 | 3 | 4 |
| 20 November 2007 | 242,236 | 298,900 | 3.6 | 4.6 |
| 18 June 2008 | 42,498 | 99,161 | 4.3 | 5.3 |
| 8 December 2008 | 206,821 | 213,905 | 4.7 | 5.7 |
| 19 November 2009 | - | 2,557,424 | 5.6 | 6.6 |
| 1 April 2010 | - | 1,017,354 | 6 | 7 |
| 27 July 2010 | 821,620 | 6,075,005 | 6.3 | 7.3 |
| 1 April 2011 | - | 718,173 | 7 | 8 |
| 1 August 2011 | 800,000 | 7,437,982 | 7.3 | 8.3 |
| 2 August 2012 | - | 4,418,173 | 8.3 | 9.3 |
| 19 September 2013 (LTIP) | 21,393,185 | - | 9.5 | - |
| Total | 24,523,583 | 25,448,374 | 8.9 | 7.5 |

Movements in the weighted average values are as follows:

| | **Weighted average exercise price** | **Number** |
|---|---|---|
| Outstanding at 31 March 2012 | €0.43 | 21,257,694 |
| Granted during the year | €0.15 | 4,418,173 |
| Forfeited during the year | €0.22 | (227,493) |
| Outstanding at 31 March 2013 | €0.38 | 25,448,374 |
| Granted during the year - LTIP | € 0.00 | 21,393,185 |
| Cancellation of options (in relation to LTIP) | € 0.32 | (22,281,147) |
| Forfeited during the year | €1.66 | (36,831) |
| Outstanding at 31 March 2014 | €0.11 | 24,523,582 |

The exercise price of options outstanding at the end of the year ranged between €nil (for LTIP options) and €2.58 (2013: €0.10 and €2.58) and their weighted average contractual life was 8.9 years (2013: 7.5 years).

Of the total number of options outstanding at the year-end, 1,012,500 (2013: 1,831,287) had vested and were exercisable at the end of the year. No options were exercised in the current or previous year.

**Employee Benefit Trust – Share bonus award**

On 5 July 2013, in connection with employee remuneration and incentivisation arrangements for the period from 1 July 2013 to 30 June 2014, 4,765,666 (2013: 3,926,666) new Ordinary shares were issued to an Employee Benefit Trust, the beneficiaries of which are primarily the Executive Directors and Senior Managers. Such new Ordinary Shares vest if the employees remain in employment with the Company at the vesting date, being 1 July 2014 (subject to certain other provisions including regulations, good-leaver, take-over and nomination and remuneration committee discretion provisions).

As at 31 March 2014, the Employment Benefit Trust was consolidated by the Company and the 4,765,666 shares are recorded as Own Shares within equity. During the period, all 3,926,666 awarded in the prior year vested.

**Employee Share Participation Plan**

During the year, the Company continued to operate the Employee Share Participation Plan (the 'Plan') that was initiated in the prior year. The Plan is intended to promote the long term growth and profitability of Accsys by providing employees with an opportunity to acquire an ownership interest in new ordinary shares ('Shares') in the Company as an additional benefit of employment.

Under the terms of the Plan, the Company issues these Shares to a trust for the benefit of the subscribing employees. The Shares are released to employees after one year, together with an additional Share on a 1 for 1 matched basis provided the employee has remained in the employment of Accsys at that point in time (subject to good leaver provisions). The Plan is in line with industry approved employee share plans and is open for subscription by employees twice a year following release of annual and half yearly financial results. The maximum amount available for subscription by any employee is €5,000 per annum.

During the year ended 31 March 2014 the plan was open for subscription once. In July 2013 various employees subscribed for a total of 497,854 Shares at an acquisition price of €0.14 per Share.

Also during the year, 1 for 1 Matching shares were awarded in respect of subscriptions that were made in the previous year as a result of all participants continuing to remain in employment at the point of vesting. 369,423 Matching shares were issued to employees in January 2014 and 415,423 Matching shares were issued to employees in July 2013.

**14. Intangible assets**

| | Internal Development costs €'000 | Intellectual property rights €'000 | Goodwill €'000 | Total €'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 31 March 2012 | 535 | 73,200 | 4,231 | 77,966 |
| Additions | 861 | 92 | - | 953 |
| At 31 March 2013 | 1,396 | 73,292 | 4,231 | 78,919 |
| Additions | 459 | - | - | 459 |
| At 31 March 2014 | 1,855 | 73,292 | 4,231 | 79,378 |
| **Accumulated amortisation** | | | | |
| At 31 March 2012 | 16 | 70,371 | - | 70,387 |
| Amortisation | 39 | 267 | - | 306 |
| At 31 March 2013 | 55 | 70,638 | - | 70,693 |
| Amortisation | 77 | 275 | | 352 |
| At 31 March 2014 | 132 | 70,913 | - | 71,045 |
| **Net book value** | | | | |
| At 31 March 2014 | 1,723 | 2,379 | 4,231 | 8,333 |
| At 31 March 2013 | 1,341 | 2,654 | 4,231 | 8,226 |
| At 31 March 2012 | 519 | 2,829 | 4,231 | 7,579 |

The carrying value of internal development costs, intellectual property rights and goodwill on consolidation have been allocated for impairment testing purposes to one cash generating unit being the Group's licensing operations. The recoverable amount of internal development costs, intellectual property rights and goodwill relating to this operation is determined based on a value in use calculation which uses cash flow projections based on board approved financial budgets. Cash flows have been projected for a period of 10 years plus assumptions concerning a terminal value, corresponding with the expected minimum life of the intellectual property rights and based on a pre tax discount rate of 20% per annum (2013: 20%). The key assumption used in the value in use calculations is the level of future licence fees estimated by management over the budget period. These have been based on past experience and expected future revenues. A 5% increase in the discount rate or a 15% reduction in expected revenues would not give rise to an impairment.

## 15. Property, plant and equipment

| | Land and buildings €'000 | Plant and machinery €'000 | Office equipment €'000 | Total €'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 31 March 2012 | 6,880 | 26,958 | 612 | 34,450 |
| Additions | - | 252 | 41 | 293 |
| Disposals | (1,672) | (20) | - | (1,692) |
| Foreign currency translation gain/(loss) | - | - | 3 | 3 |
| At 31 March 2013 | 5,208 | 27,190 | 656 | 33,054 |
| Additions | 43 | 444 | 85 | 572 |
| Disposals | - | (116) | - | (116) |
| Foreign currency translation gain/(loss) | - | - | (9) | (9) |
| At 31 March 2014 | 5,251 | 27,518 | 732 | 33,501 |
| **Accumulated depreciation** | | | | |
| At 31 March 2012 | 75 | 8,293 | 468 | 8,836 |
| Charge for the year | 117 | 1,771 | 62 | 1,950 |
| Disposals | - | (7) | - | (7) |
| Foreign currency translation gain/(loss) | - | - | 4 | 4 |
| At 31 March 2013 | 192 | 10,057 | 534 | 10,783 |
| Charge for the year | 115 | 1,818 | 91 | 2,024 |
| Disposals | - | (39) | - | (39) |
| Foreign currency translation gain/(loss) | - | - | (7) | (7) |
| At 31 March 2014 | 307 | 11,836 | 618 | 12,761 |
| **Net book value** | | | | |
| At 31 March 2014 | 4,944 | 15,682 | 114 | 20,740 |
| At 31 March 2013 | 5,016 | 17,133 | 122 | 22,271 |
| At 1 April 2012 | 6,805 | 18,665 | 144 | 25,614 |

Included within property, plant and equipment are assets with an initial cost of €6,252,000 and a net book value at 31 March 2014 of €4,056,000 which has been accounted for as a finance lease under the terms of the sale and leaseback agreement entered into in the prior year. See note 24.

## 16. Other financial assets

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Available for sale investments | - | - |

Accsys Technologies PLC has previously purchased a total of 21,666,734 unlisted ordinary shares in Diamond Wood China. The Group does not currently have an intention to dispose of its investment in Diamond Wood in the foreseeable future.

The carrying value of the investment is carried at cost less any provision for impairment, rather than at its fair value, as there is no active market for these shares, and there is significant uncertainty over the future of Diamond Wood, and as such a reliable fair value cannot be calculated.

The historical cost of the unlisted shares held at 31 March 2014 is €10m (2013: €10m). However, a provision for the impairment of the entire balance of €10m continues to be recorded, as at 31 March 2014 there is considerable doubt as to whether Diamond Wood will continue as a going concern. See note 28.

## 17. Deferred Taxation

The Group has a deferred tax asset of €nil (2013: €866,000) relating to trading losses brought forward. The deferred tax asset has been recognised on the basis that trading profits are expected to be recorded in the related legal entities in the foreseeable future. These expected trading profits are attributable to the production of Accoya® wood and the recharge of research and development activities to other Group companies.

The Group also has an unrecognised deferred tax asset of €23,087,000 (2013: €21,543,000) which is largely in respect of trading losses of the UK subsidiary. The deferred tax asset has not been recognised due to the uncertainty of the timing of future expected profits of the related legal entity attributable to licensing activities.

Movements in recognised deferred tax asset:

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Opening balance | 866 | 1,522 |
| Recognition of deferred tax asset | - | - |
| Derecognition of deferred tax asset | - | - |
| Utilisation of deferred tax asset | (866) | (656) |
| Closing balance | - | 866 |

## 18. Subsidiaries

A list of subsidiary investments, including the name, country of incorporation and proportion of ownership interest is given in note 4 to the Company's separate financial statements.

## 19. Inventories

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Materials and work in progress | 3,492 | 1,816 |
| Finished goods | 2,561 | 3,044 |
| | 6,053 | 4,860 |

The amount of inventories recognised as an expense during the year was €23,969,284 (2013: €13,172,827). The cost of inventories recognised as an expense includes a net credit of €409,412 (2013: €512,813) in respect of the inventories sold in the period which had previously been written down to net realisable value.

## 20. Trade and other receivables

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Trade receivables | 3,060 | 2,294 |
| Other receivables | 385 | 249 |
| Prepayments | 1,031 | 1,145 |
| | 4,476 | 3,688 |

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The majority of trade and other receivables is denominated in Euros, with €355,000 of the trade receivables denominated in US$ (2013: €166,000).

The age of receivables past due but not impaired is as follows:

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Up to 30 days overdue | 183 | 755 |
| Over 30 days and up to 60 days overdue | 136 | 49 |
| Over 60 days and up to 90 days overdue | (14) | 11 |
| Over 90 days overdue | 3 | 9 |
| | 308 | 824 |

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. Included in the provision for doubtful debts are individually impaired trade receivables and accrued income with a balance of €25,001,000 (2013: €25,001,000) due from Diamond Wood.

Movement in provision for doubtful debts:

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Balance at the beginning of the period | 25,051 | 25,110 |
| Release of impairment | (32) | (59) |
| Balance at the end of the period | 25,019 | 25,051 |

Summary of Receivable Impairments:

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Trade receivables - Accoya® wood * | 18 | 50 |
| | 18 | 50 |

* The impairment of Accoya® wood receivables relates to a number of Accoya® customers.

## 21. Trade and other payables

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Trade payables | 3,790 | 2,333 |
| Other taxes and social security payable | 110 | 86 |
| Accruals and deferred income | 1,657 | 938 |
| | 5,557 | 3,357 |

## 22. Share capital

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| **Allotted - Equity share capital** | | |
| 439,219,864 (2013: 433,171,589) Ordinary shares of €0.01 each | 4,392 | 4,332 |
| | 4,392 | 4,332 |

On 5 July 2012, a total of 3,926,666 shares were issued to an Employment Benefit Trust, the beneficiaries of which were to be the Executive Directors and Senior Managers (see note 13).

On 8 August 2012, a total of 783,283 of Ordinary shares were issued and released to employees together with the 783,283 of Ordinary shares issued to trust on 2 August 2011. (See note 13).

On 7 September 2012, a total of 415,332 of Ordinary shares were issued to a trust under the terms of the Employee Share Participation Plan. (See note 13).

On 19 October 2012, a total of 23,529,412 of Ordinary shares were issued to INEOS following the receipt of subscription monies totalling €4,000,000.

On 18 January 2013, a total of 369,423 of Ordinary shares were issued to a trust under the terms of the Employee Share Participation Plan. (See note 13).

On 23 January 2013, a total of 130,831 of Ordinary shares were issued and released to employees together with the 130,831 of Ordinary shares issued to trust on 23 August 2012. (See note 13).

On 5 July 2013, a total of 4,765,666 shares were issued to an Employment Benefit Trust, the beneficiaries of which were to be the Executive Directors and Senior Managers (see note 13).

On 13 September 2013, a total of 415,332 of Ordinary shares were issued and released to employees together with the 497,854 of Ordinary shares issued to trust on 12 August 2013. (See note 13).

On 20 January 2014, a total of 369,423 of Ordinary shares were issued and released to employees.

## 23. Commitments under operating leases

The Group leases land, buildings and machinery under non-cancellable operating lease agreements. The total future value of the minimum lease payments that are due is as follows:

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Operating lease payments due | | |
| Within one year | 1,003 | 978 |
| In the second to fifth years inclusive | 1,210 | 1,345 |
| In greater than five years | 1,477 | 1,475 |
| | 3,690 | 3,798 |

The majority of commitments under operating leases relate to the Group's offices in the UK, the Netherlands and U.S.A. and land in the Netherlands which is adjacent to our plant.

## 24. Commitments under finance leases

Agreements were reached in August 2011 for the sale and leaseback of the land and buildings in Arnhem for a total of €4m. €2.2m was received in 2011 with the remaining amount received in the prior year, but accounted for as an operating lease. The transaction has resulted in a finance lease creditor of €2.1m as at 31 March 2014:

| | Minimum lease payments | |
|---|---|---|
| | 2014 €'000 | 2013 €'000 |
| **Amounts payable under finance leases:** | | |
| Within one year | 280 | 280 |
| In the second to fifth years inclusive | 1,120 | 1,120 |
| After five years | 2,053 | 2,332 |
| Less: future finance charges | (1,318) | (1,544) |
| Present value of lease obligations | 2,135 | 2,188 |

## 25. Financial instruments

### Financial instruments

### Finance lease

Agreements were reached in August 2011 for the sale and leaseback of the land and buildings in Arnhem under which a total of €4m was to received. €2.2m was received in 2011 with the remaining amount received in the prior year. Subject to the terms of the agreement, the buyer has committed to build new storage facilities which will also allow for an improvement in wood handling logistics. The transaction has resulted in a finance lease creditor of €2,135,000 as at 31 March 2014 (2013: €2,188,000). The total lease term is 15 years. (See note 23 and 24).

### Warrants

In addition to INEOS's joint investment programme with Accsys into the Tricoya business, where INEOS Industries Holdings Limited subscribed to 23,529,412 new ordinary shares in Accsys, at a price of €0.17 per share on 19 October 2012, the Company also executed a warrant instrument in favour of INEOS, allowing INEOS the opportunity to purchase up to a further 16,468,236 shares at a price of €0.21 per share at certain times up until 19 October 2016. All 16,468,236 warrants remained unexercised at 31 March 2014.

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable owners of the parent Company, comprising share capital, reserves and accumulated losses.

The Board reviews the capital structure on a regular basis. As part of that review, the Board considers the cost of capital and the risks associated with each class of capital. Based on the review, the Group will balance its overall capital structure through new share issues and the raising of debt if required.

No final dividend is proposed in 2014 (2013: €Nil). The Board deems it prudent for the Company to protect as strong a statement of financial position as possible during the current phase of the Company's growth strategy.

| **Categories of financial instruments** | **2014 €'000** | **2013 €'000** |
|---|---|---|
| Available for Sale investments | - | - |
| Loans and receivables | | |
| Trade receivables | 3,060 | 2,294 |
| Other receivables | 385 | 249 |
| Money market deposits in Euro | 11,791 | 15,768 |
| Money at call in Euro | 2,483 | 2,180 |
| Money at call in US dollars | 602 | 459 |
| Money at call in Sterling | 114 | 671 |
| Money at call in New Zealand dollars | 195 | 375 |
| Liquidity fund in Euro | - | 1,013 |
| Financial liabilities at amortised cost | | |
| Trade payables | (3,790) | (2,333) |
| Accruals | (1,149) | (938) |
| Finance lease payable | (2,135) | (2,188) |
| | 11,556 | 17,550 |

Money market deposits have interest rates fixed for less than three months at a weighted average rate of 1.58% (2013: 1.17%). Money market deposits are held at financial institutions with high credit ratings (Standard & Poor's rating of AA).
All assets and liabilities mature within one year except for the finance lease, for which details are given in note 24.

Trade payables are payable on various terms, typically not longer than 30 days.

### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. There is also a risk associated with the available for sale investment.

**Financial risk management objectives**

The Group's treasury policy is structured to ensure that adequate financial resources are available for the development of its business whilst managing its currency, interest rate, counterparty credit and liquidity risks. The Group's treasury strategy and policy are developed centrally and approved by the Board.

**Foreign currency risk management**

Currency exposures are limited as the Group's functional currency is the Euro with the majority of operating costs and balances denominated in Euros. A smaller proportion of expenditure is incurred in US dollars and pounds sterling. In addition some raw materials, while priced in Euros, are sourced from countries which are not within the Eurozone. The Group monitors any potential underlying exposure to other exchange rates.

**Interest rate risk management**

The Group's borrowings are limited to the sale and leaseback of the Arnhem land and buildings and therefore it is not exposed to interest rate risk in relation to financial liabilities. Surplus funds are invested in short term interest rate deposits to reduce exposure to changes in interest rates. The Group does not enter into any hedging arrangements.

**Credit risk management**

The Group is exposed to credit risk due to its trade receivables due from customers and cash deposits with financial institutions. The Group's maximum exposure to credit risk is limited to their carrying amount recognised at the balance sheet date.

The Group ensures that sales are made to customers with an appropriate credit history to reduce the risk where this is considered necessary. The Directors consider the trade receivables at year end to be of good credit quality including those that are past due (note 20). The Group is not exposed to any significant credit risk exposure in respect of any single counterparty or any group of counterparties with similar characteristics other than the balances which are provided for as described in note 20.

The Group has credit risk from financial institutions. Cash deposits are placed with a group of financial institutions with suitable credit ratings in order to manage credit risk with any one financial institution.

**Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

In addition to the sale and leaseback of the Arnhem land and buildings described above, the Group entered new finance facilities secured on trade receivables and inventories:

**Trade receivables facility**
On 28 February 2011 the Group entered a trade receivable financing and credit management agreement with Fortis Commercial Banking for a period of at least two years from the closing date and with a facility limit of €1.5m. After two years the agreement renews for rolling one year periods. The facility is secured upon the Group's trade receivable. At 31 March 2014, €nil had been drawn down under the agreement.

**Inventories facility**
On 17 January 2013 the Group entered a credit facility agreement with ABN AMRO Bank N.V. with a facility limit of €3.0m for the financing of the Group's operating activities. The facility is secured against the inventories of the Group.

Both facilities are subject to interest at 1.5% above the ABN AMRO base rate of 4.0% as at 31 March 2014 (2013: 4.2%). At 31 March 2014, the Group had €nil (2013: €nil) borrowed under both of the facilities.

**Fair value of financial instruments**

In the opinion of the Directors, there is no material difference between the book value and the fair value of all financial assets and financial liabilities.

**26. Related party transactions**

In the year ended 31 March 2014, there were a number of related party transaction with the Tricoya Technologies Limited joint venture, all of which arose in the normal course of business, totalling €1,070,000 (2013: €618,000). The 2013 amount covered the period from October 2012 to March 2013. At the end of the period €298,404 (2013: €237,000) of the total amount was payable from TTL to Accsys group companies (2013: €237,000).

## 27. Capital Commitments

| | **2014 €'000** | **2013 €'000** |
|---|---|---|
| Contracted but not provided for in respect of property, plant and equipment | - | 72 |

## 28. Other matters

On 16 August 2013 Accsys announced it had terminated its licence agreement with Diamond Wood China Limited ('Diamond Wood').

Accsys entered a licence agreement with Diamond Wood in 2007 which was subsequently amended and superseded on various occasions, the last being in August 2010. Under the terms of the licence agreement, Diamond Wood was granted exclusive rights to construct and then run an Accoya acetylation plant in China and parts of South East Asia. However as the Company has previously reported, Diamond Wood failed to make progress in this respect despite the significant amount of support and work carried out by Accsys since 2007.

Following legal advice, notice of termination of the licence agreement was served by Accsys in August 2013, in accordance with Accsys' contractual and legal rights, as a result of Diamond Wood's failure to comply with its contractual obligations (the "Termination").

On 17 September 2013 a notice of arbitration was served by Diamond Wood in which it indicated it is seeking confirmation that the licence agreement is still in force and seeking damages for the losses it has suffered from the Termination. The arbitration is on-going and as has been previously stated, we welcome the opportunity to confirm the validity of our termination.

Following robust legal advice firmly supporting Accsys' Termination no provision has been booked in respect of the potential amounts which could become due should Accsys not be successful in the arbitration process.

Legal costs of €726,000 have been incurred and recorded in the period within Other Operating Costs in relation to the arbitration.

The arbitration process is currently in progress and, whilst further details of the arbitration are subject to confidentiality, Accsys will provide a further update once the matter has been concluded.