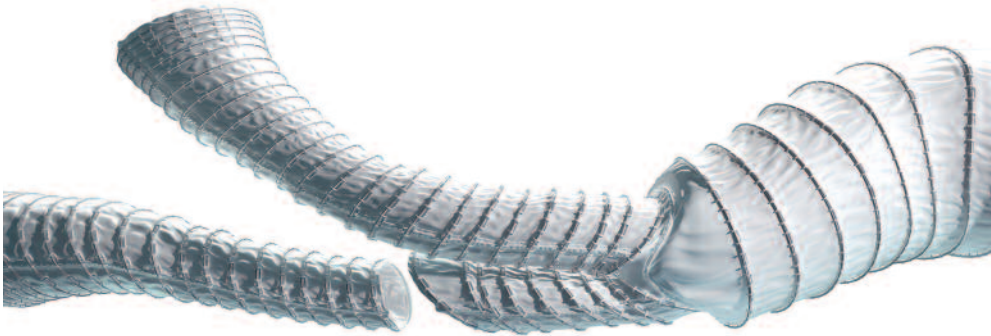


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# Lombard Medical Technologies PLC

## Interim Report 2009



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We provide innovative cardiovascular products which make a difference to patients, clinicians and shareholders.



## Operational Highlights

### **Aorfix™**

- > Unique European label claim extension for high-angle-neck aneurysms received in June.
- > Aorfix™ sales £1,135,000, up 68% (H1 2008: £675,000).
- > Commercial implants 171, up 55% (H1 2008: 110); total Aorfix™ implants to date approach 950.
- > US trial recruitment nearing completion:
  - Open surgery arm – recruitment complete.
  - Low-angle arm – recruitment complete with additional patients allowed under study protocol.
  - High-angle arm – 100 patients recruited out of total 120 required for data submission.
- > Excellent clinical data in high-angle and low-angle aneurysms presented at major congresses.
- > Company continues to work towards securing a global marketing partnership.

### **Organisation**

- > Restructuring completed, headcount reduced to 56 (31 December 2008: 88).
- > Discussions on disposal of Polymer Coatings Division ongoing.

## Financial Highlights

- > H1 revenues £1,254,000, up 47% (H1 2008: £855,000).
- > Operating expenses down 16% to £4.8 million (H1 2008: £5.7 million).
- > Operating expenses excluding redundancy costs down 22% (32% at constant currencies) to £4.3 million (H1 2008: £5.5 million).
- > Operating loss £4.2 million, down 20% (H1 2008: £5.3 million).
- > R&D tax credit of £1.2 million received in June 2009.
- > £6.0 million net of expenses received in January 2009 from placing and subscription of shares and convertible loan notes.
- > All convertible loan notes converted into ordinary shares during the period.
- > Net cash of £4.0 million as at 30 June 2009, in line with expectations.
- > Exploratory talks under way with a number of potential investors to seek additional funds.

# Chief Executive and Chairman's Review

During 2008 and at the beginning of this year, Lombard Medical raised additional funds totalling £14.4 million, net of expenses, which has enabled the Company to advance its core commercial objectives.

In the first quarter of 2009, the restructuring of the business was successfully completed with headcount reduced to 56 from 109 in mid-2008. The average monthly burn rate in the first half was reduced significantly to around £600,000 per month (before R&D tax credits and one-off items), down from around £950,000 per month in the same period of 2008. The business is now focused entirely on Aorfix™, the Company's flagship product for the treatment of abdominal aortic aneurysms ("AAAs"), and good progress has been made in executing our core strategic objectives in that market.

## Unique Label Claim for Aorfix™

In June, the Company received European approval to extend its existing indication to treat AAAs with neck angulations up to and including 90 degrees (previously 65 degrees), making it the only product in Europe approved for this category of patient. This unique indication extends the use of endovascular treatment to patients with challenging anatomy who are often at risk in open surgical conditions due to their age or co-morbidities. Furthermore, it demonstrates to clinicians the unrivalled versatility of Aorfix™ in treating a broad spectrum of patients and achieving good clinical outcomes, regardless of the tortuosity of the vascular anatomy.

The approval follows submission of clinical data from a study to assess Aorfix™ in the treatment of AAAs with high-angled infra renal neck angulations of between 60 and 90 degrees.

For patients in the study who had 30-day and six-month follow-ups, there were no reports of device rupture, migration, stent fracture, loss of patency, vessel perforation, significant obstruction or conversion to open repair. Furthermore, all patients reviewed after six months were found to have a stable or shrinking aneurysm sac, indicating that the aneurysm was under control. The study

reported that Aorfix™ was safe and effective in treating this group of challenging patients with difficult vascular morphology.

Data from this study (ARBITER 2) complements that from Lombard Medical's Retrospective Aorfix™ Data Retrieval (RADAR) open, voluntary registry, data from which has been presented at major medical conferences during the spring and summer. These results are derived from a wide spectrum of over 600 patients from 16 countries. In those patients with 12-month follow-ups, it is clear that Aorfix™ has the ability to treat successfully both standard and severely angled AAAs with equally good results.

Feature	Neck Angle < 60°	Neck Angle > 60°
Eligible cases with one year follow-up	111	73
Mean aneurysm neck-angle	29°	80°
Stent migration at 12 months	0.0%	0.0%
Wire fracture at 12 months	0.0%	0.0%
Type 1 endoleaks at 12 months	0.9%	1.4%

These results also compare favourably with other commercially available stent grafts for which the neck angle is restricted to below 60 degrees.

Feature	LMT Aorfix™	Cook Zenith	Gore Excluder	Medtronic Talent
Serious adverse events at 30 days	3.4%	20.0%	14.0%	10.8%
All cause mortality at 12 months	4.6%	6.3%	5.0%	6.5%
Stent migration at 12 months	0.0%	0.0%	1.0%	0.8%
Type 1 endoleaks at 12 months	1.2%	1.5%	1.0%	6.6%

Note: Aorfix™ data based on RADAR registry. Information for competitors' products based on PMA approval documents at [www.clinicaltrials.gov](http://www.clinicaltrials.gov)

Clinical adoption of Aorfix™ has also been supported by a number of positive clinical presentations by leading vascular surgeons in peer-reviewed medical publications.

The unique label claim for Aorfix™ is highly significant in the roll out of the Company's

commercial strategy. Aorfix™ meets an unmet need in a large and growing market segment, and Lombard Medical's principal focus continues to be to conclude a value enhancing partnership with a major company in the cardiovascular space.

### International Sales Growth

Aorfix™ currently has regulatory approval across the EU and in Russia, Argentina and Brazil. In the EU the product has also had unique approval for use across the widest range of patients with aneurysm neck angulations from 0 to 90 degrees, since 4 June 2009. Plans are in hand to bring the approvals in Russia and Brazil in line with the EU.

In line with its resources, Lombard Medical is carefully focusing its promotion of Aorfix™ on eight markets, where the Company has key opinion leader support for Aorfix™ in the treatment of AAA. These markets are the UK, where the Company has a very small direct sales force of two full-time equivalents; Russia and Brazil; and Poland, the Czech Republic, Italy, Greece and Spain, where the Company has strong local distributor marketing and distribution.

Sales of Aorfix™ are growing rapidly in all these target markets. Over 18 months since full commercial launch, Aorfix™ had already by early 2009, gained 6% market share in the UK, an estimated 12% in the Czech Republic, 5% in Greece and 5% in Poland. The expanded label claim to treat aneurysms with neck-angulations of up to 90 degrees will give it additional competitive advantage in these markets. RADAR registry data shows that the majority of Aorfix™ implants (>85%) are in patients with normal vascular anatomy indicating that clinicians are not just using Aorfix™ in a niche segment of difficult to treat patients but are primarily recognising its superior clinical performance and using the product in preference to longer established stent grafts. The number of Aorfix™ implants worldwide is now approaching 950, with good clinical outcomes in follow-up extending to over five years. Aorfix™ was used commercially (i.e. outside of clinical trials) in 171 cases in the first half of 2009, an increase of 55% over the same period last year.

Total Company sales increased by 47% to £1,254,000 in H1 2009 with sales of Aorfix™ rising by 68% to £1,135,000. Sales of Aorfix™, outside of the US, grew by 72% to £866,000.

### Aorfix™ Regulatory Approval in USA

The pivotal USA study PYTHAGORAS continues to make progress. The Company has completed full enrolment into the open surgical control group of 75 patients and has sufficient patients, 46, in the low-angle (below 60 degrees of aneurysm neck angulation) endovascular arm of the study, for 12-month follow-ups.

Recruitment into the high-angle group currently stands at 100 patients out of a total of 120 required to start the 12-month follow-up necessary for clinical submission to the FDA. This milestone is most likely to be met early in Q4, allowing for the clinical submission to be made to the FDA in Q4 2010 and an approval to be received in H2 2011.

The rate of recruitment into the high-angle group has been inconsistent during H1 2009 due to a number of factors, including an abnormally high number of screened patients failing to meet the inclusion/exclusion criteria of the study. There is also some evidence that economic factors are temporarily reducing the number of elective surgical procedures being performed, including AAA procedures, as patients are concerned about taking time off work and incurring uninsured associated costs. The Company is planning to submit four PMA modules on biocompatibility, preclinical testing, design control and sterilisation and packaging during the next nine months. The Company's manufacturing approval module is set for early in the second half of 2010, followed by the clinical module.

With the important milestone of full enrolment of the core group in all arms of the study approaching, plans are in place to develop the next stage of the Company's commercialisation strategy in the US. Lombard Medical is working with a specialist US consultant on the US pre-commercial development activities for Aorfix™.

# Chief Executive and Chairman's Review continued

The Company also plans to seek FDA approval for a continued access programme for the use of Aorfix™ in those centres that have participated in PYTHAGORAS. This programme is most likely to commence in H1 2010 once it has been approved by the FDA and the maximum number of patients allowed have been recruited into the trial, (65 in the low-angle arm and 150 in the high-angle arm).

The Company's Principal Investigator, Dr Mark Fillinger, Dartmouth Hitchcock-Medical Centre, Lebanon, USA, one of the US's most eminent physicians in the field of endovascular aortic repair ("EVAR"), stated that: *"The Aorfix™ stent graft has treated the most challenging anatomy ever attempted in a US clinical trial and has produced similar results to approved devices used in straightforward cases."* This data from the PYTHAGORAS study and testimony from leading vascular surgeons should give added weight to the PMA once gained in 2011. Additionally, prior to the approval, the Company's publications strategy will be directed towards ensuring that results of the PYTHAGORAS study are published in leading peer reviewed journals.

## Manufacturing

The Company's manufacturing and quality group have continued to improve capacity and capability. Nearly all Aorfix™ implants are now supplied from a well-managed inventory of preferred customer sizes which helps to ensure good customer service.

## EndoRefix™ and Thoracic Aorfix™

Both of these products are valuable assets which could help drive the future value of the Company.

In the case of EndoRefix™, the Company is collecting data from the 58 patients that were enrolled in the study. Once available, this data will determine our future development and commercial strategy for this device.

The thoracic version of Aorfix™ also continues to be a valuable asset because of the limitations of the devices currently available commercially.

The Company will resume development of this device as soon as funds are available.

## Polymer Coatings Division

Discussions are at an advanced stage with a potential acquirer of this business, we will update the market on further developments in due course.

## Summary

We believe that with the achievement of label expansion for high-angle neck aneurysms in Europe, confirmation of Aorfix™ as a strong competitor in the rapidly growing global EVAR market has been achieved. Operational capability is now fully established so as to commercialise this opportunity.

Discussions are ongoing with potential industry partners with the global reach and marketing muscle to maximise the opportunity in all major world markets, especially the US. We are also in discussions which could lead to the disposal of the Company's Polymer Coatings Division later this year.

In the US, the Company's focus continues to be on completing Phase 1 of the Aorfix™ commercialisation project: to achieve full enrolment of the pivotal study and the opening of a continued access programme which will generate a revenue stream and clinical support for the eventual introduction of Aorfix™ commercially. Additionally, the Company is developing and executing the next phase of the Aorfix™ pre-marketing activities, with the goal of establishing the scientific and clinical reputation of the device and laying down solid foundations for a successful launch post PMA.



**Simon Neathercoat FCA**  
Non-Executive Chairman



**Brian Howlett**  
Chief Executive Officer  
7 August 2009

# Finance Director's Review

Total revenues for the period increased 47% to £1,254,000 (H1 2008: £855,000). Sales in the Cardiovascular Devices Division rose by 57% to £1,246,000 (H1 2008: £795,000) primarily from Aorfix™ sales of which increased by 68% to £1,135,000 (H1 2008: £675,000). Revenues from contract services provided by Culzean declined slightly in the period to £104,000 (H1 2008: £111,000) as a major customer reduced stocks built up during the latter part of 2008. The Company's Polymer Coatings Division did not sign any significant licence agreements in the period and as such recorded reduced revenues of £8,000 (H1 2008: £60,000).

The gross profit of £558,000 (H1 2008: £425,000) represented a gross margin of 44% (H1 2008: 50%). The lower gross margin arose from a lack of licence fee income from the Polymer Coatings Division and a reduction in development activity that resulted in a higher proportion of shared overheads being allocated to production. The significant cuts to operating costs, implemented during Q1 2009, should improve gross margins going forward.

Selling, marketing and distribution expenses decreased by 27% to £710,000 (H1 2008: £972,000) as the sales and marketing department headcount was reduced to seven from ten during the period.

The decision to focus the Company's resources on Aorfix™ resulted in research and development expenditure falling by £0.8 million to £2.5 million (H1 2008: £3.3 million) despite exchange rate movements increasing US dollar denominated costs by £0.4 million, as expenditure on EndoRefix™ was reduced along with that of other non-essential development projects.

Administrative expenses of £1.5 million (H1 2008: £1.4 million) include redundancy costs of £480,000 (H1 2008: £138,000) and foreign exchange losses of £109,000 (H1 2008: £5,000). Excluding these costs, administrative expenses declined 24% to £945,000 (H1 2008: £1,238,000) as Board fees were reduced, non-essential roles cut and all discretionary spend put under tight control.

Interest receivable fell to £22,000 (H1 2008: £147,000) due to lower interest rates and average cash balances. Finance costs of £152,000 (H1 2008: £nil) were incurred in the period from the accelerated write-off of issue costs relating to the Convertible Loan Notes 2009 that were converted into equity in February 2009.

The tax credit of £580,000 (H1 2008: £1,050,000) consisted of an estimate of £300,000 for the R&D tax credit arising in the period, plus an adjustment of £280,000 for an underestimate of the R&D tax credit in the 2008 accounts. Prior to H2 2008, the Company recognised R&D tax credits on confirmation of a claim and the tax credit in H1 2008 related to a claim for 2007 of £1,050,000 that was confirmed prior to publication of the interim accounts.

The loss after taxation decreased 7% to £3.8 million (H1 2008: £4.1 million) as the £1 million reduction in operating loss to £4.2 million arising from the increase in gross profit and reduced operating expenses was partly offset by higher finance costs, lower interest receivable and lower tax credits.

The net cash outflow from operating activities decreased by £2.8 million to £3.0 million (H1 2008: £5.8 million) principally due to the lower operating loss, R&D tax credit receipts of £1.2 million (H1 2008: £nil) and lower working capital requirements particularly in respect of inventories.

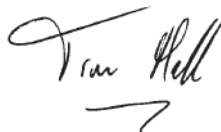
## Finance Director's Review continued

Net cash flows from investing activities were £290,000 (H1 2008: outflow of £1,000) principally from the receipt of £305,000 of deferred consideration from the sale of the Company's shares in EndoArt SA in February 2007.

Net cash flows from financing activities of £5,951,000 (H1 2008: £7,080,000) arose from the placing and subscription of shares and convertible loan notes (subsequently converted to ordinary shares in the period) announced in January 2009 that raised a total of £6.4 million before expenses of £0.4 million.

The net cash balance held at 30 June 2009 of £4.0 million (H1 2008: £3.9 million) is in line with expectations and as previously announced is expected to fund the Group into early 2010, but is not sufficient to take the business to the point where it becomes cash generative. The Company is in talks with a number of potential trade partners for Aorfix™ with the aim of concluding a value-enhancing partnership. Considering the unique profile and

excellent clinical data reported for Aorfix™, its growing sales in target markets and the US trial being close to full recruitment, the Directors believe they will be successful in completing an agreement. It is possible that milestone payments from such an arrangement could bridge the funding gap. However, exploratory talks are also being held with a number of potential investors to seek additional funds adequate to sustain the business between early 2010 and the Company becoming cash generative. In light of these initiatives the Board of Lombard Medical regards it as appropriate that these interim financial statements are prepared on a going concern basis.



**Tim Hall**  
Finance Director  
7 August 2009

# Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2009 (unaudited)

	Note	Six Months Ended 30 June 2009 £'000	Six Months Ended 30 June 2008 £'000	Year Ended 31 December 2008 £'000
<b>Revenue</b>	2	<b>1,254</b>	855	1,953
Cost of sales		<b>(696)</b>	(430)	(1,109)
<b>Gross profit</b>		<b>558</b>	425	844
Selling, marketing and distribution expenses		<b>(710)</b>	(972)	(2,053)
Research and development expenses		<b>(2,530)</b>	(3,327)	(7,531)
Administrative expenses		<b>(1,534)</b>	(1,381)	(2,644)
<b>Operating expenses before investment related items</b>		<b>(4,774)</b>	(5,680)	(12,228)
Profit on disposal of investment		–	–	276
Impairment provision – investment		–	–	(874)
<b>Total operating expenses</b>		<b>(4,774)</b>	(5,680)	(12,826)
<b>Operating loss</b>		<b>(4,216)</b>	(5,255)	(11,982)
Finance income – interest receivable		<b>22</b>	147	224
Finance costs		<b>(152)</b>	–	(92)
<b>Loss before taxation</b>	2	<b>(4,346)</b>	(5,108)	(11,850)
Taxation	3	<b>580</b>	1,050	1,971
<b>Total comprehensive income and loss after taxation attributable to equity shareholders</b>		<b>(3,766)</b>	(4,058)	(9,879)
<b>Basic and diluted loss per share (pence)</b>	4	<b>(0.56)</b>	(3.13)	(7.46)

All activity relates to continuing operations.

# Consolidated Balance Sheet

as at 30 June 2009 (unaudited)

	Note	30 June 2009 £'000	30 June 2008 £'000	31 December 2008 £'000
<b>Assets</b>				
Intangible assets		<b>2,384</b>	2,431	2,407
Property, plant and equipment		<b>233</b>	436	354
Financial assets – available for sale		<b>850</b>	1,724	850
<b>Non-current assets</b>		<b>3,467</b>	4,591	3,611
Inventories		<b>1,489</b>	1,404	1,498
Trade and other receivables		<b>604</b>	952	1,264
Taxation recoverable		<b>300</b>	1,050	900
Cash and cash equivalents		<b>3,984</b>	3,901	775
<b>Current assets</b>		<b>6,377</b>	7,307	4,437
<b>Total assets</b>		<b>9,844</b>	11,898	8,048
<b>Liabilities</b>				
Trade and other payables		<b>(1,898)</b>	(2,117)	(2,347)
Financial liabilities – borrowings		–	–	–
Financial liabilities – convertible loan notes 2009		–	–	(1,376)
<b>Current liabilities</b>		<b>(1,898)</b>	(2,117)	(3,723)
<b>Total liabilities</b>		<b>(1,898)</b>	(2,117)	(3,723)
<b>Net assets</b>		<b>7,946</b>	9,781	4,325
<b>Equity</b>				
Capital and reserves attributable to equity holders of the Company				
Called up share capital	5	<b>12,998</b>	5,903	5,946
Share premium account	5	<b>38,060</b>	37,716	37,728
Other reserves	5	<b>11,342</b>	11,118	11,342
Accumulated loss		<b>(54,454)</b>	(44,956)	(50,691)
<b>Total equity</b>		<b>7,946</b>	9,781	4,325

# Consolidated Cash Flow Statement

for the six months ended 30 June 2009 (unaudited)

	Note	<b>Six Months Ended 30 June 2009 £'000</b>	Six Months Ended 30 June 2008 £'000	Year Ended 31 December 2008 £'000
<b>Net cash outflow from operating activities</b>	6	<b>(3,032)</b>	(5,843)	(10,517)
<b>Cash flows from investing activities</b>				
Interest received		<b>21</b>	147	195
Purchase of property, plant and equipment		<b>(36)</b>	(148)	(211)
Proceeds from the sale of investments		<b>305</b>	–	–
<b>Net cash flows from/(used in) investing activities</b>		<b>290</b>	(1)	(16)
<b>Cash flows from financing activities</b>				
Proceeds from issue of ordinary shares		<b>6,383</b>	7,587	7,587
Share issue expenses		<b>(432)</b>	(451)	(451)
Proceeds from issue of convertible loan notes 2009		–	–	1,708
Convertible loan notes 2009 issue costs		–	–	(142)
Repayment of loan notes		–	(56)	(56)
Interest paid		–	–	(3)
<b>Net cash flows from financing activities</b>		<b>5,951</b>	7,080	8,643
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>3,209</b>	1,236	(1,890)
Cash and cash equivalents at beginning of period		<b>775</b>	2,665	2,665
<b>Cash and cash equivalents at end of period</b>		<b>3,984</b>	3,901	775

# Consolidated Statement of Changes in Equity

for the six months ended 30 June 2009 (unaudited)

	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Accumulated Loss £'000	Total Equity £'000
At 1 January 2008	4,818	31,665	11,118	(41,063)	6,538
Loss after taxation attributable to equity shareholders	-	-	-	(4,058)	(4,058)
Share-based compensation	-	-	-	165	165
Issue of ordinary shares	1,085	6,502	-	-	7,587
Share issue expenses	-	(451)	-	-	(451)
At 30 June 2008	5,903	37,716	11,118	(44,956)	9,781
Loss after taxation attributable to equity shareholders	-	-	-	(5,821)	(5,821)
Share-based compensation	-	-	-	86	86
Equity component of convertible loan notes	-	-	224	-	224
Issue of ordinary shares	43	12	-	-	55
Share issue expenses	-	-	-	-	-
At 31 December 2008	5,946	37,728	11,342	(50,691)	4,325
Loss after taxation attributable to equity shareholders	-	-	-	(3,766)	(3,766)
Share-based compensation	-	-	-	3	3
Issue of ordinary shares	7,052	858	-	-	7,910
Share issue expenses	-	(526)	-	-	(526)
<b>At 30 June 2009</b>	<b>12,998</b>	<b>38,060</b>	<b>11,342</b>	<b>(54,454)</b>	<b>7,946</b>

# Notes to the Financial Information

for the six months ended 30 June 2009

## 1 Basis of Preparation of Interim Financial Information

The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards (collectively IFRS) as adopted by the EU including those applicable to accounting periods ending 31 December 2009 and the accounting policies set out in Lombard Medical Technologies PLC's Annual Report for the year ended 31 December 2008. These interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" they do not include all the statements required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at 31 December 2008.

The interim financial statements have been prepared on the going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

The Group is committed to meeting employment and certain operational costs, as well as supporting its main trading subsidiaries through intra-group funding in order to pursue its objectives. Forecasts have been prepared taking into account the requirements to complete product development including US trials and to achieve significant levels of commercial sales within Europe and later the US markets. It is projected that current cash balances will be absorbed during Q1 2010. Further funding is therefore being sought through a number of strategies including the disposal of non-core assets, discussions with potential trading partners and financial investors. Although funding is dependent on this strategy, the Directors continue to believe this will be achieved and hence regard it as appropriate that these interim financial statements are prepared on a going concern basis.

The financial information contained in this interim financial statement is unaudited and does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the year ended 31 December 2008 has been extracted from the Group's published financial statements for that year. Those accounts that have been delivered to the Registrar of Companies were audited and the audit report was unqualified, but contained an emphasis of matter clause referring to funding disclosures similar to that above, and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

# Notes to the Financial Information continued

for the six months ended 30 June 2009

## 2 Operating Segment Analysis

	<b>Six Months Ended 30 June 2009 £'000</b>	Six Months Ended 30 June 2008 £'000	Year Ended 31 December 2008 £'000
By operating segment			
<b>Revenue:</b>			
Cardiovascular devices and medical fabrics	<b>1,246</b>	795	1,888
Polymer coatings	<b>8</b>	60	65
	<b>1,254</b>	855	1,953
Loss before taxation:			
Cardiovascular devices and medical fabrics	<b>(3,042)</b>	(3,985)	(8,977)
Polymer coatings	<b>(345)</b>	(178)	(406)
Unallocated	<b>(829)</b>	(1,092)	(2,001)
Operating loss before investment related items by segment	<b>(4,216)</b>	(5,255)	(11,384)
Profit on disposal of investment	-	-	276
Impairment provision – investment	-	-	(874)
Operating loss	<b>(4,216)</b>	(5,255)	(11,982)
Net finance (cost)/income	<b>(130)</b>	147	132
	<b>(4,346)</b>	(5,108)	(11,850)
<b>Revenue by destination:</b>			
United Kingdom and Europe	<b>772</b>	627	1,293
United States of America	<b>276</b>	175	495
Rest of World	<b>206</b>	53	165
	<b>1,254</b>	855	1,953

Analyses by operating segment are based on the reports used by the executive board members in taking operating decisions.

### 3 Taxation on Loss on Ordinary Activities

	<b>Six Months Ended 30 June 2009 £'000</b>	Six Months Ended 30 June 2008 £'000	Year Ended 31 December 2008 £'000
Utilisation of UK tax losses from research and development expenditure to reclaim payroll taxes:			
– for prior year	<b>280</b>	1,050	1,071
– for current year	<b>300</b>	–	900
	<b>580</b>	1,050	1,971

### 4 Loss per Share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares. The diluted earnings per ordinary share are identical to those used for the basic earnings per ordinary share as the exercise of share options and warrants would have had the effect of reducing the loss per ordinary share and are therefore not dilutive.

Reconciliations of the losses and weighted average number of shares used in the calculations are set out below:

	<b>Six Months Ended 30 June 2009</b>	Six Months Ended 30 June 2008	Year Ended 31 December 2008
Loss attributable to ordinary shareholders (£'000)	<b>(3,766)</b>	(4,058)	(9,879)
Weighted average number of ordinary shares ('000)	<b>678,151</b>	129,811	132,374
Basic and diluted loss per share (pence)	<b>(0.56)</b>	(3.13)	(7.46)

# Notes to the Financial Information continued

for the six months ended 30 June 2009

## 5 Equity

On 26 January 2009 a capital reorganisation, issue of new ordinary shares and issue of placing notes were approved at a general meeting of the Company that included:

- 1 The re-designation of the existing issued deferred shares of 0.862 pence each to A deferred shares;
- 2 The subdivision of the existing ordinary shares of 2 pence each into one new ordinary share of 1 pence and one new B deferred share of 1 pence;
- 3 The subdivision of the unissued ordinary shares of 2 pence each into two new ordinary shares of 1 pence each;
- 4 An increase in the authorised share capital of the Company to £14,600,000 through the creation of an additional 360,000,000 new ordinary shares of 1 pence each;
- 5 The issue of 588,234,835 ordinary shares of 1 pence for a total consideration of £5,882,348; and
- 6 The issue at par of £500,000 of unsecured convertible redeemable loan notes.

Pursuant to the fundraising approved at the January general meeting the Company exercised its right to convert the outstanding £1.652 million nominal of unsecured convertible redeemable loan notes 2009 issued in October 2008 into ordinary shares with each 2.5 pence nominal of loan notes being converted into one fully paid ordinary share of 1 pence each. This resulted in the issue of 66,883,920 ordinary shares in February 2009.

In May 2009 the Company received notice from the holder of the unsecured convertible redeemable loan notes issued in January 2009 of their wish to convert the loan notes into ordinary shares. Each one pence nominal value of loan notes was duly converted into one fully paid ordinary share of 1 pence resulting in the issue of 50,000,000 ordinary shares.

**i) Share capital**

	30 June 2009		30 June 2008		31 December 2008	
	Number of Shares '000	Nominal Value £'000	Number of Shares '000	Nominal Value £'000	Number of Shares '000	Nominal Value £'000
<b>Authorised</b>						
Ordinary shares of 1 pence each	1,001,549	10,015	–	–	–	–
Ordinary shares of 2 pence each	–	–	338,868	6,777	338,868	7,777
A deferred shares of 0.862 pence each	373,857	3,223	373,857	3,223	373,857	3,223
B deferred shares of 1 pence each	136,186	1,362	–	–	–	–
	<b>1,511,592</b>	<b>14,600</b>	712,725	10,000	762,725	11,000
<b>Allotted, called up and fully paid</b>						
Ordinary shares of 1 pence each	841,305	8,413	–	–	–	–
Ordinary shares of 2 pence each	–	–	133,980	2,680	136,186	2,723
A deferred shares of 0.862 pence each	373,857	3,223	373,857	3,223	373,857	3,223
B deferred shares of 1 pence each	136,186	1,362	–	–	–	–
	<b>1,351,348</b>	<b>12,998</b>	507,837	5,903	510,043	5,946

**ii) Share Premium Account**

This consists of the proceeds from the issue of shares in excess of their par value less associated issue costs.

**iii) Other Reserves**

£11,118,000 arose on the conversion of convertible preference shares to ordinary shares and represents the difference between the fair value of the preference shares and the nominal value of the ordinary shares issued and £224,000 represents the net present value of the equity component of the convertible loan notes issued in 2008 calculated using a discount rate of 18%.

# Notes to the Financial Information continued

for the six months ended 30 June 2009

## 6 Reconciliation of Loss before Taxation to Net Cash Outflow from Operating Activities

	<b>Six Months Ended 30 June 2009 £'000</b>	Six Months Ended 30 June 2008 £'000	Year Ended 31 December 2008 £'000
Loss before taxation	<b>(4,346)</b>	(5,108)	(11,850)
Depreciation and amortisation of licences	<b>180</b>	118	287
Share-based compensation expense	<b>3</b>	165	251
Profit on disposal of investment	<b>–</b>	–	(276)
Net finance cost/(income)	<b>130</b>	(147)	(132)
Impairment provision – investment	<b>–</b>	–	874
Decrease/(increase) in inventories	<b>9</b>	(518)	(612)
Decrease in receivables	<b>261</b>	44	37
Decrease in payables	<b>(449)</b>	(397)	(167)
<b>Net cash used in operations</b>	<b>(4,212)</b>	(5,843)	(11,588)
Research and development tax credits received	<b>1,180</b>	–	1,071
<b>Net cash outflow from operating activities</b>	<b>(3,032)</b>	(5,843)	(10,517)

# Shareholder Information

## Directors

Simon Neathercoat Independent Non-executive Chairman  
Brian Howlett Chief Executive Officer  
Tim Hall Finance Director  
Timothy Cook Independent Non-executive Director  
Richard Johnston Non-executive Director  
Craig Rennie Independent Non-executive Director  
Martin Rothman Independent Non-executive Director  
Michael Stevens Senior Independent Non-executive Director

## Company Secretary

Rhod Jones

## Financial Calendar

Preliminary announcement of 2009 full-year results March 2010

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