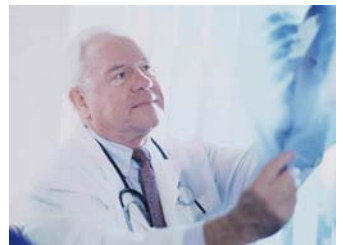




Lombard Medical

Lombard Medical Technologies PLC
Interim Report 2007



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Lombard Medical Technologies (LMT) is a specialist cardiovascular device and polymer coatings company which focuses on discovering, developing and commercialising innovative products that address the unmet needs of medical professionals across the world. LMT's technological expertise results in products with competitive design advantages.

Our Products

- > LMT's lead product is Aorfix™ an endovascular stent graft for the treatment of abdominal aortic aneurysms (AAAs).

- > Aorfix™ has unrivalled flexibility making it suitable for patients with high-angle-neck aneurysms and/or tortuous iliac arteries.

- > LMT's novel endovascular stapling device, EndoRefix™ is the subject of a strategic collaboration with Medtronic, Inc.

- > An endovascular stent graft for the treatment of thoracic aortic aneurysms (TAAs) is in the latter stages of design.

- > The Polymer Coatings Division has a number of novel coatings in development for the \$5-\$6 billion drug-eluting stent market.

Chief Executive's Review

Operational Highlights

- > FDA approval of changes to the pivotal US clinical trial for Aorfix™ that:
 - > reduces patient numbers;
 - > allows the use of the second generation device with a more flexible delivery system; and
 - > widens the entry criteria to include patients with high-angle-neck aneurysms (up to 90°) for whom there is no licensed endovascular treatment alternative
- > Aorfix™ launched in Brazil, the fourth largest endovascular market in the world
- > Acquisition of Culzean Medical Devices Limited to provide medical fabric expertise and manufacturing capacity
- > Sale of investment in EndoArt SA for £1.6 million
- > Collaboration negotiated with Smith & Nephew Plc to develop bioresorbable drug-eluting stent

The Company has made good progress on a number of fronts in the first half of 2007.

Clinical experience of Aorfix™ continues to increase with close to 300 implants performed to date.

Aorfix™ US Clinical Trial

In April, FDA approval was received for a supplement to the investigational device exemption (IDE) application requesting permission to use the second generation (Gen II) version of the Aorfix™ endovascular stent graft with an improved delivery device.

In May, conditional FDA approval was received for a further supplemental IDE with full approval confirmed in July. This supplement broadened the entry criteria for the trial to include patients with aneurysm neck angulations of up to 90°. Neck angulations of this severity have no licensed endovascular treatment in either the US or Europe and, if successful, the trial will result in

a unique label claim for Aorfix™. The first US procedure using Gen II Aorfix™ in a patient with an aneurysm with a neck angle of greater than 60° was successfully performed in July by Dr Mark Fillinger (Dartmouth Hitchcock Medical Center) who commented that he did not believe that any other available stent graft could have properly treated the aneurysm.

The supplement also increased the permitted number of trial centres from 10 to 20, and reduced the total number of endovascular patients for whom data are to be submitted from 385 (including 110 in a planned high-angle-neck arm) to just 160 based on new statistical analysis. Furthermore, the supplement requested use of historical data for part of the control arm resulting in a reduction in the number of patients undergoing open surgery for whom data need to be submitted from 110 to 60.

The changes to the trial arising from these supplemental IDEs are expected to have a positive impact on recruitment rates once approved by the existing trial centres and after contracts have been signed with new trial

centres. The Company has recently recruited two experienced clinical site specialists who will each be responsible for promoting recruitment into the trial at a number of trial centres. Recruitment of a third such specialist is currently ongoing.

As at 30 June 2007 13 Aorfix™ implants had been performed and 21 open surgery controls. A further five Aorfix™ implants were performed in July and August bringing the total at the end of August to 18.

Manufacturing

Adaptations to the loading process and quality control checks introduced in January following the voluntary suspension of clinical procedures have ensured that Aorfix™ has deployed adequately in all procedures during 2007. However, inherent variability in the loading process due to its reliance on operator techniques has had a negative impact on yields.

Engineers have been redesigning the whole loading process over the last few months to simplify the procedure and remove variability inherent in the old process. A revised process has been designed and is currently undergoing final testing which, if successful, will result in the new process being introduced into production by the end of the year.

Notwithstanding this the production team have achieved stock levels of Aorfix™ that now ensure the majority of European cases can be supplied immediately eliminating month-long lead times that previously placed the product at a competitive disadvantage.

The acquisition of Culzean Medical Devices Limited ("Culzean") was completed in June. Culzean is an innovative and experienced medical fabric specialist providing contract development and manufacturing solutions to the medical device industry. Its expertise in medical fabrics is expected to be of significant value in the development of the Company's next generation of stent grafts and in ensuring consistent fabric quality in the Company's Aorfix™ stent graft.

Culzean's premises in Prestwick, Ayrshire contain clean room suites in which stent grafts are being produced for testing purposes allowing the main facility at Didcot to focus on manufacturing for commercial and clinical requirements.

David Richmond, the CEO of Culzean, has joined the Company's management team and has assumed responsibilities related to developing manufacturing process improvements for Aorfix™ as well as continuing to manage Culzean.

Another important addition to the management team in 2007 has been David Clennell who joined in January as QA/QC Director from a senior position within Johnson & Johnson.

Aorfix™ Sales

Despite the loss of sales momentum arising from the voluntary suspension at the beginning of the year, sales of Aorfix™ in the first half of 2007 still increased by 159% over H1 2006 to £412,000 (H1 2006: £159,000). Following a review of the Company's marketing strategy by the Company's new Marketing Director, Mike Karim, who joined in June from Boston Scientific, resources in the short term are to be focused on seven key markets – UK, Germany, Italy, Spain, Czech Republic, Greece and Brazil.

The clinical community continues to express significant interest in Aorfix™ as evidenced by the large numbers of people attending our satellite symposium at the 30th Charing Cross Endovascular Symposium in April.

Sales of Aorfix™

159%

Increase in H1 revenue to £412,000
(H1 2006: £159,000)

Clinical experience with Aorfix™ continues to increase with close to 300 implants performed to date. A summary of outcomes from 101 cases for which follow-up data are available in the Retrospective Aorfix™ Data Retrieval ("RADAR") clinical registry was presented earlier this month at the Cardiology and Interventional Radiology Society of Europe (CIRSE) congress in Athens. These data, which compare favourably with NICE guidance, especially in terms of frequency of endoleaks and stent migration provide further evidence of the competitive profile of Aorfix™. Further, updated data from the RADAR registry will be presented at future major endovascular congresses through 2007/8.

EndoRefix™ Endostapler

A further preclinical trial requested by the FDA was successfully completed in June this year and reports from this study have been incorporated into a revised IDE submission made earlier this month. US trial centres have been identified by our distribution partner Medtronic Inc and the US trial is expected to start in Q4 2007, as planned, with FDA approval expected in Q3 2008. Centres in the UK and Germany have been identified for the initial European 10 case trial requested by Medtronic and this trial is also expected to start in Q4 2007.

EndoRefix™ was successfully deployed for the first time in man in July to secure an endovascular stent graft in an aneurysm with a particularly difficult anatomy that was not suitable for endovascular treatment without the extra fixation provided by EndoRefix™.

Polymer Coatings

The Company further expanded its range of developments for the \$5 billion coronary stent market with the signing in July of a two-year research collaboration with Smith & Nephew Plc to develop a bioresorbable drug-eluting coating for coronary stents. Early feasibility work has already demonstrated the advantages of bringing together Smith & Nephew's leading edge bioresorbable polymer technology with Lombard Medical's surface treatment and attachment technologies. All new intellectual property

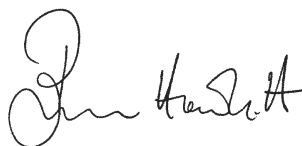
generated from this project will be jointly owned by both parties.

Financing

The Company has successfully raised £6.6 million net of expenses from a placement and subscription of shares and £1.4 million from the sale of its shareholding in EndoArt SA during 2007. Further details of these transactions are contained in the Finance Director's Review.

Board Changes

Alistair Taylor will be standing down from his role as Executive Chairman on 30 September and the Board would like to express its appreciation for the significant contribution that Alistair has made to the Company since his appointment in 2003. From 1 October Simon Neathercoat will join the Board as Non-executive Chairman. Simon has 30 years' experience advising companies and boards of directors during his successful career in investment banking and I am sure that his experience will be of significant value to the Company as it progresses. The Board will be further strengthened from 1 October by the addition of two new Non-executive Directors, Dr Tim Cook and Craig Rennie, who are highly experienced executives from the medical device and pharmaceutical industries respectively.



Brian Howlett
Chief Executive Officer
19 September 2007

Finance Director's Review

Financial Highlights

- > £6.6 million net of expenses raised via placing and subscription in July
- > 141% increase in H1 revenue to £433,000 (H1 2006: £180,000)
- > Investment in R&D increased to £2.8 million (H1 2006: £2.2 million)
- > Operating loss decreased 14% to £4.4 million (H1 2006: £5.1 million)

Despite the voluntary suspension of Aorfix™ clinical procedures in Europe from 11 December 2005 to 30 January 2006, revenues in the first half of 2007 increased by 141% to £433,000 (H1 2006: £180,000). Sales of Aorfix™ represented 95% of total revenues and rose by 159% to £412,000 (H1 2006: £159,000).

The gross profit of £114,000 (H1 2006: £31,000) represented a gross margin of 26% (H1 2006: 17%). Although above that of last year the gross margin was depressed due to costs associated with the voluntary suspension of Aorfix™ in January and poor yields associated with the loading of the stent graft into the delivery device.

Selling, marketing and distribution expenses increased by £0.4 million to £1.3 million (H1 2006: £0.9 million) reflecting increased surgeon training costs associated with the introduction of Aorfix™ into new centres, the recruitment of new personnel during the second half of 2006 to support distributors in key European markets, and the cost of the new "Patient-shaped technology" advertising material for Aorfix™.

Investment in research and development increased by £0.6 million to £2.8 million (H1 2006: £2.2 million) primarily due to increased costs relating to the Aorfix™ US clinical trial and costs associated with the development and testing of improvements to the Aorfix™ manufacturing process.

Administrative expenses decreased by 5% to £1.36 million (H1 2006: £1.42 million) as result of a continued emphasis on the control of overhead costs.

Share-based compensation expense decreased by 74% to £0.2 million (H1 2006: £0.6 million) as estimates of the number of share options that would meet their vesting criteria and vest were reduced primarily as a direct or indirect result of manufacturing scale-up problems encountered with Aorfix™.

In February 2007 the Company sold its 3.2% shareholding in the Swiss medical technology company, EndoArt SA pursuant to the acquisition of EndoArt by Allergan Inc. The Company received \$2.8 million (£1.4 million) on closing of the transaction with a further \$0.4 million (£0.2 million) of consideration being held in escrow until February 2009 against any potential warranty claims made by Allergan under the terms of the purchase agreement. The book value of the Company's investment in EndoArt at the time of the acquisition was £0.3 million having been previously written down from its cost of £1.1 million. A profit on disposal of investments of £1.1 million (H1 2006: £Nil) was recorded as a result of this transaction.

Net interest receivable fell to £0.1 million (H1 2006: £0.4 million) as a result of the lower average cash balances held.

No R&D tax credits were received or confirmed in the period (H1 2006: £0.1 million).

The loss after taxation of £4.3 million was 6% below that for the prior period (H1 2006: £4.6 million) and the loss per share was 7% below that for the prior period at 8.65 pence (H1 2006: 9.35 pence).

Culzean was acquired in June for a total consideration of £243,000 of which £75,000 was discharged through the issue of shares in LMT, £146,000 through the issue of Loan Notes after the period end and £22,000 from acquisition costs. The provisional fair value of net liabilities acquired was £100,000 resulting in goodwill on consolidation of £343,000. Cash outflows resulting from this acquisition were £169,000 in the period representing the repayment of bank loans and other creditors of Culzean and the payment of acquisition costs.

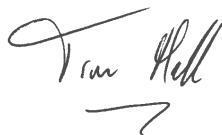
The net cash outflow in the period of £3.5 million was £3.3 million below that for the prior period (H1 2006: £6.8 million) primarily due to the £1.4 million received from the sale of EndoArt in 2007 and a £2.0 million payment in the prior period relating to the distribution to minority shareholders of Lombard Medical PLC upon its members' voluntary liquidation.

International Financial Reporting Standards (IFRS)

These interim financial statements are the first reported by the Company under IFRS and the comparative figures have been restated to conform to the same basis of presentation. Significant accounting policies adopted in preparation of the statements in accordance with IFRS are set out in Note 7 along with reconciliations of figures previously reported under UK GAAP to those restated in these interim accounts.

Post Balance Sheet Placing and Subscription of Shares

The Company has raised £6.6 million net of expenses of £0.8 million from the placement and subscription of 29.5 million shares at a price of 25 pence per share. 8.9 million warrants to subscribe to new ordinary shares have also been issued in a ratio of three warrants for every ten ordinary shares placed or subscribed. The issue of the shares and warrants was approved by shareholders at an Extraordinary General Meeting on 9 July 2007 and the shares were admitted to trading on AIM on 10 July 2007.



Tim Hall
Finance Director
19 September 2007

Consolidated Income Statement

for the six months ended 30 June 2007 (unaudited)

	Note	Six Months Ended 30 June 2007 £'000	Six Months Ended 30 June 2006 (restated) £'000	Year Ended 31 December 2006 (restated) £'000
Revenue	3	433	180	517
Cost of sales		(319)	(149)	(410)
Gross profit		114	31	107
Selling, marketing and distribution expenses		(1,282)	(874)	(1,869)
Research and development expenses		(2,838)	(2,218)	(4,785)
Administrative expenses		(1,358)	(1,424)	(3,099)
Share-based compensation expense		(167)	(631)	(727)
Operating expenses		(5,645)	(5,147)	(10,480)
Profit on disposal of investments		1,139	–	–
Operating loss		(4,392)	(5,116)	(10,373)
Interest receivable and similar income		84	397	569
Interest payable and similar charges		(1)	–	(6)
Loss on ordinary activities before taxation		(4,309)	(4,719)	(9,810)
Taxation		(14)	107	646
Loss after taxation attributable to equity shareholders		(4,323)	(4,612)	(9,164)
Basic and diluted loss per share (pence)	4	(8.65)	(9.35)	(18.45)

All activity relates to continuing operations.

Prior periods have been restated to conform to International Financial Reporting Standards (see Note 1).

Consolidated Balance Sheet

as at 30 June 2007 (unaudited)

	30 June 2007 £'000	30 June 2006 (restated) £'000	31 December 2006 (restated) £'000
Assets			
Goodwill and intangible assets	2,479	2,191	2,166
Tangible assets	415	332	362
Financial assets – available for sale	2,564	2,825	2,825
Non-current assets	5,458	5,348	5,353
Inventories	1,047	443	470
Trade and other receivables	915	436	1,097
Cash and cash equivalents	869	9,574	4,362
Current assets	2,831	10,453	5,929
Total assets	8,289	15,801	11,282
Liabilities			
Borrowings	(30)	–	–
Trade and other payables	(2,875)	(1,880)	(1,817)
Current liabilities	(2,905)	(1,880)	(1,817)
Total liabilities	(2,905)	(1,880)	(1,817)
Net assets	5,384	13,921	9,465
Equity			
Called up share capital	4,228	4,223	4,223
Share premium account	25,607	25,537	25,537
Other reserves	11,118	11,118	11,118
Retained loss	(35,569)	(26,957)	(31,413)
Total equity	5,384	13,921	9,465

Consolidated Cash Flow Statement

for the six months ended 30 June 2007 (unaudited)

	Note	Six Months Ended 30 June 2007 £'000	Six Months Ended 30 June 2006 (restated) £'000	Year Ended 31 December 2006 (restated) £'000
Net cash outflow from operating activities	5	(4,718)	(5,028)	(10,244)
Cash flows from investing activities				
Acquisition of Culzean Medical Devices Limited (including debt and payables settled)	2	(169)	–	–
Interest received		84	282	449
Purchase of tangible assets		(89)	(148)	(305)
Proceeds from the sale of investments		1,400	–	–
Payments relating to the distribution to the minority shareholders of Lombard Medical PLC upon its members' voluntary liquidation		–	(2,013)	(2,013)
Net cash flows from/(used in) investing activities		1,226	(1,879)	(1,869)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		–	157	157
Share issue expenses		–	(18)	(18)
Interest paid		(1)	–	(6)
Net cash flows from financing activities		(1)	139	133
Decrease in cash and cash equivalents		(3,493)	(6,768)	(11,980)
Cash and cash equivalents at beginning of period		4,362	16,342	16,342
Cash and cash equivalents at end of period		869	9,574	4,362

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007 (unaudited)

	Called Up Share Capital £'000	Share Premium Account £'000	Profit and Loss Account £'000	Other Reserves £'000	Shareholders' Funds £'000	Minority Interests £'000	Total Equity £'000
At 1 January 2006	4,201	25,420	(22,976)	11,118	17,763	1,820	19,583
Loss after taxation attributable to equity shareholders	–	–	(4,612)	–	(4,612)	–	(4,612)
Share-based compensation	–	–	631	–	631	–	631
Issue of ordinary shares	22	135	–	–	157	–	157
Share issue expenses	–	(18)	–	–	(18)	–	(18)
Elimination of minority interest on liquidation of Lombard Medical PLC	–	–	–	–	–	(1,820)	(1,820)
At 30 June 2006	4,223	25,537	(26,957)	11,118	13,921	–	13,921
Loss after taxation attributable to equity shareholders	–	–	(4,552)	–	(4,552)	–	(4,552)
Share-based compensation	–	–	96	–	96	–	96
At 31 December 2006	4,223	25,537	(31,413)	11,118	9,465	–	9,465
Loss after taxation attributable to equity shareholders	–	–	(4,323)	–	(4,323)	–	(4,323)
Share-based compensation	–	–	167	–	167	–	167
Issue of ordinary shares	5	70	–	–	75	–	75
At 30 June 2007	4,228	25,607	(35,569)	11,118	5,384	–	5,384

Notes to the Financial Information

for the six months ended 30 June 2007

1 Basis of Preparation of Interim Financial Information

The Group will prepare consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and applicable interpretations, as adopted for use in the EU, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, for the first time for the year ended 31 December 2007. The interim financial information for the six months ended 30 June 2007 is unaudited and has been prepared for the first time in accordance with IFRS accounting principles which the Group expects to apply in its financial statements for the year ending 31 December 2007. The comparative financial information previously reported in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") for the year ended 31 December 2006 and for the six months ended 30 June 2006 has also been restated to conform to the same basis of presentation, as detailed in the appendix to this report. The date of the Group's transition to IFRS is 1 January 2006.

As provided by IFRS 3 "Business Combinations", goodwill recognised under UK GAAP prior to the date of the Group's transition to IFRS on 1 January 2006 is stated at the net book value at that date.

The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the full proceeding year is based on the statutory accounts for the financial year ended 31 December 2006 prepared under UK GAAP. Those accounts, upon which the Auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

2 Acquisition

On 20 June 2007, the Company acquired Culzean Medical Devices Limited ("Culzean") for a consideration of £243,000 including acquisition costs of £22,000. This was satisfied by the issue of 272,278 new ordinary shares in Lombard Medical Technologies PLC that were admitted to trading on the AIM market of the London Stock Exchange and the issue of £146,000 of 5% Guaranteed Loan Notes 2008 ("the Loan Notes"). The Loan Notes were issued on finalisation of the completion accounts on 30 August 2007 and at 30 June 2007 the obligation to issue the Loan Notes is included in the balance sheet as a current liability.

2 Acquisition continued

The purchase of Culzean has been accounted for using acquisition accounting, after taking into account the fair value of the shares issued by Lombard Medical Technologies PLC based on the market value at the close of business on 19 June 2007 of 27.5 pence per share. On this basis, the net assets acquired and the goodwill arising in respect of the acquisition of Culzean were as follows:

	Book Value £'000	Fair Value £'000
Provisional fair value of net assets of Culzean:		
Tangible assets	59	43
Inventories	4	4
Trade and other receivables	39	39
Borrowings	(92)	(92)
Trade and other payables	(94)	(94)
	(84)	(100)
Net liabilities acquired		(100)
Goodwill		343
Consideration		243

Borrowings and trade and other payables include amounts totalling £147,000 which were repaid or paid following acquisition.

	£'000
Consideration discharged by:	
Fair value of shares issued	75
Fair value of Loan Notes issued	146
Costs associated with the acquisition	22
	243

Culzean earned revenues of £73,000 of which £61,000 related to sales to Lombard Medical – Cardiovascular Devices Division and recorded a loss of £6,000 in the six months ended 30 June 2007. Included in the Group results for the six months ended 30 June 2007 are revenues of £3,000 and losses of £3,000 from the consolidation of the results of Culzean Medical Devices Limited from the date of its acquisition on 20 June 2007.

The adjustments made to the book value of Culzean's assets and liabilities in arriving at the fair value of net liabilities acquired arise from the application of the accounting policies of Lombard Medical Technologies PLC and adjustments arising from a provisional assessment of the fair values of Culzean's assets and liabilities including the write-down of certain leasehold improvements. Goodwill comprises the value of assets not separately identifiable or for which the cost cannot be reliably measured and includes: the value of the know-how and skills of Culzean's management and workforce particularly with regard to medical fabrics; and the value of various business relationships including the value of a technology collaboration and a number of contract manufacturing arrangements currently under negotiation.

3 Revenue Analysis

	Six Months Ended 30 June 2007 £'000	Six Months Ended 30 June 2006 (restated) £'000	Year Ended 31 December 2006 (restated) £'000s
Revenue by business:			
Cardiovascular devices	425	158	473
Polymer coatings	5	22	44
Culzean Medical Devices Limited	3	–	–
	433	180	517
Revenue by customer location:			
United Kingdom and Europe	300	173	488
United States of America	54	7	29
Rest of World	79	–	–
	433	180	517

Analyses by business are based on the Group's management structure and turnover between business segments is immaterial.

4 Loss per Share

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:

	Six Months Ended 30 June 2007	Six Months Ended 30 June 2006 (restated)	Year Ended 31 December 2006 (restated)
Loss attributable to ordinary shareholders (£'000)	(4,323)	(4,612)	(9,164)
Weighted average number of ordinary shares ('000)	50,000	49,344	49,667
Basic and diluted loss per share (pence)	(8.65)	(9.35)	(18.45)

In July 2007 the Company completed the placing and subscription of 29,532,660 ordinary shares at 25 pence per share raising £7.4 million before expenses.

5 Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities

	Six Months Ended 30 June 2007 £'000	Six Months Ended 30 June 2006 (restated) £'000	Year Ended 31 December 2006 (restated) £'000s
Operating loss	(4,392)	(5,116)	(10,373)
Depreciation and amortisation of licences	109	141	293
Share-based compensation expense	167	631	727
Profit on disposal of investment	(1,139)	–	–
Increase in inventories	(573)	(127)	(152)
Decrease/(increase) in receivables	(157)	34	(244)
(Decrease)/increase in payables	900	(698)	(771)
Net cash outflow from operations	(5,085)	(5,135)	(10,520)
Income taxes paid	(11)	–	–
Research and development tax credit	378	107	276
Net cash outflow from operating activities	(4,718)	(5,028)	(10,244)

6 Post Balance Sheet Events

At an Extraordinary General Meeting on 9 July 2007 shareholders approved the placing and subscription of 29,532,660 ordinary shares of 2 pence each at a price of 25 pence per share raising £6.6 million net of expenses of £0.8 million. These shares were admitted to trading on AIM on 10 July 2007. In connection with this placing and subscription the Company issued warrants to subscribe to a total of 8.9 million shares, half at an exercise price of 31 pence per share within three years of the subscription date and half at an exercise price of 37 pence per share within five years of the subscription date.

7 Reporting Under International Financial Reporting Standards (IFRS)

From 1 January 2007 Lombard Medical Technologies PLC will produce its consolidated report and accounts in accordance with IFRS. The Group's date of transition is 1 January 2006, which is the beginning of the 2006 comparative period and as such the opening balance sheet for IFRS purposes is that reported at 1 January 2006, as amended for changes due to IFRS. This interim financial report is the first to be prepared under IFRS. The comparative figures have been prepared on the same basis and are therefore restated from those previously reported under UK GAAP. The changes to UK GAAP included in the restated figures are outlined below.

Business Combinations

Under IFRS 1, the Group may elect not to apply IFRS 3 "Business Combinations" retrospectively to transactions occurring prior to the date of transition to IFRS and management has elected to take advantage of this exemption. The carrying amount of goodwill in the opening IFRS balance sheet that is recorded under UK GAAP at the date of transition, goodwill is not amortised, but subject to annual tests of impairment.

Holiday Pay

Under IAS 19 "Employee Benefits" a provision for holiday to which employees are entitled, but have not yet taken, is required. This charge was not required under UK GAAP. The above items have no impact on the opening IFRS balance sheet that is the same as that recorded under UK GAAP but increase the net assets reported at 30 June 2006 and 31 December 2006 by £598,000 and £1,259,000 respectively and reduce the reported loss in the six months to 30 June 2006 and year ended 31 December 2006 by £598,000 and £1,259,000 respectively. There was no impact, other than changes to presentation, on the consolidated cash flow statements for the six months ended 30 June 2006 and year ended 31 December 2006. Unaudited reconciliations between the reported UK GAAP figures and those reported under IFRS are shown at the end of this note for the balance sheets as at 30 June 2006 and 31 December 2006 and the income statements for the six months ended 30 June 2006 and year ended 31 December 2006. Significant accounting policies adopted in the preparation of the Group's IFRS statements that incorporate changes to UK GAAP that may or may not have given rise to reconciling items are noted below:

Intangible Assets

Goodwill

Goodwill recognised under UK GAAP prior to 1 January 2006 is stated at net book value at that date. Goodwill arising on the acquisition of subsidiary or associate undertakings and business subsequent to 1 January 2006, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised. Goodwill is not amortised but is reviewed for impairment annually.

Research & Development Expenditure

Research expenditure is charged to the income statement in the period in which it is incurred. The Group considers that the regulatory, technical and market uncertainties inherent in the development of new products means that development costs should not be capitalised as intangible fixed assets until products receive approval from the appropriate regulatory body. Substantially all development expenditure is complete by the time the product is submitted for regulatory approval. Consequently expenditure on R&D is expensed as incurred.

7 Reporting Under International Financial Reporting Standards (IFRS) continued

Other Intangible Assets

Other intangible assets are recognised on business combinations if they are separable, or if they arise from contractual or other legal rights, and their fair value can be measured reliably. They are amortised on a straight-line basis over their estimated useful economic lives from the time they are available for use.

Impairment of Assets

Assets that have an indefinite life are not subject to amortisation but are tested for impairment annually. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount which is the higher of an asset's fair value less selling costs and its value in use. Any impairment loss is recognised immediately in the income statement. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are identifiable cash in-flows (cash-generating units). The expected cash flows generated by the assets are discounted using asset-specific discount rates which reflect the risks associated with the group of assets. These risks vary with the nature and location of the cash-generating units.

Financial Assets – Available for Sale

Financial assets available for sale are stated at fair value where this can be determined by reference to an active market. Investments in unlisted equity instruments are measured at cost, less any provision for impairment in value, as their fair value cannot be reliably measured. Losses relating to impairment are immediately recognised as an expense in the income statement.

Taxation

Taxation on the profit or loss for the year comprises current and deferred tax including tax on capital gains. Current tax is the expected tax payable, or recoverable, on the taxable profit/loss and any adjustment to tax payable or receivable in respect of prior years. Research and development tax credits resulting from the utilisation of research and development losses to reclaim payroll taxes are only expected and hence recorded on receipt of confirmation of a claim. Deferred tax is accounted for using the balance sheet liability method in respect of temporary timing differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss. Deferred tax assets are recognised to the extent that it is possible that future taxable profits will be available against which the temporary differences can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis. Deferred tax is measured on an undiscounted basis and at the tax rates expected to apply in the period in which the asset or liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Reconciliation of Consolidated Balance Sheet

as at 30 June 2006

	Previously Reported Under UK GAAP £'000	IFRS 3 Business Combinations £'000	Holiday Pay Accrual £'000	Restated Under IFRS £'000
Assets				
Intangible assets	1,567	624	–	2,191
Other non-current assets	3,157	–	–	3,157
Non-current assets	4,724	624	–	5,348
Current assets	10,453	–	–	10,453
Total assets	15,177	624	–	15,801
Liabilities				
Trade and other payables	(1,854)	–	(26)	(1,880)
Current liabilities	(1,854)	–	(26)	(1,880)
Total liabilities	(1,854)	–	(26)	(1,880)
Net assets	13,323	624	(26)	13,921
Equity				
Retained loss	(27,555)	624	(26)	(26,957)
Other equity shareholders' funds	40,878	–	–	40,878
Total equity	13,323	624	(26)	13,921

as at 31 December 2006

Assets				
Intangible assets	907	1,259	–	2,166
Other non-current assets	3,187	–	–	3,187
Non-current assets	4,094	1,259	–	5,353
Current assets	5,929	–	–	5,929
Total assets	10,023	1,259	–	11,282
Liabilities				
Trade and other payables	(1,817)	–	–	(1,817)
Current liabilities	(1,817)	–	–	(1,817)
Total liabilities	(1,817)	–	–	(1,817)
Net assets	8,206	1,259	–	9,465
Equity				
Retained loss	(32,672)	1,259	–	(31,413)
Other equity shareholders' funds	40,878	–	–	40,878
Total equity	8,206	1,259	–	9,465

Reconciliation of Consolidated Income Statement

for the six months ended 30 June 2006

	Previously Reported Under UK GAAP £'000	IFRS 3 Business Combinations £'000	Holiday Pay Accrual £'000	Restated Under IFRS £'000
Revenue	180	–	–	180
Cost of sales	(144)	–	(5)	(149)
Gross profit	36	–	(5)	31
Selling, marketing and distribution expenses	(870)	–	(4)	(874)
Research and development expenses	(2,210)	–	(8)	(2,218)
Administrative expenses	(2,039)	624	(9)	(1,424)
Share-based compensation expense	(631)	–	–	(631)
Operating expenses	(5,750)	624	(21)	(5,147)
Operating loss	(5,714)	624	(26)	(5,116)
Net interest receivable	397	–	–	397
Loss on ordinary activities before tax	(5,317)	624	(26)	(4,719)
Taxation	107	–	–	107
Loss after taxation attributable to equity shareholders	(5,210)	624	(26)	(4,612)
Basic and diluted loss per share (pence)	(10.56)	1.26	(0.05)	(9.35)

for the year ended 31 December 2006

Revenue	517	–	–	517
Cost of sales	(410)	–	–	(410)
Gross profit	107	–	–	107
Selling, marketing and distribution expenses	(1,869)	–	–	(1,869)
Research and development expenses	(4,785)	–	–	(4,785)
Administrative expenses	(4,358)	1,259	–	(3,099)
Share-based compensation expense	(727)	–	–	(727)
Operating expenses	(11,739)	1,259	–	(10,480)
Operating loss	(11,632)	1,259	–	(10,373)
Net interest receivable	563	–	–	563
Loss on ordinary activities before tax	(11,069)	1,259	–	(9,810)
Taxation	646	–	–	646
Loss after taxation attributable to equity shareholders	(10,423)	1,259	–	(9,164)
Basic and diluted loss per share (pence)	(20.99)	2.54	–	(18.45)

Glossary of Terms

abdominal aortic aneurysm or AAA

Balloon-like enlargement of the aorta in the region of the abdomen (occurring in the length of the aorta between the diaphragm and iliac bifurcation).

aneurysm

Balloon-like enlargement of a blood vessel resulting from a weakening in the vessel wall.

aorta

The main artery of the body from which all others derive.

bifurcated

A structure that branches into two separate similar structures.

CE Mark

The manufacturer's declaration, following appropriate assessment by a CE Notified Body, that the product conforms to the essential requirements of the relevant European health, safety and environmental protection legislations. Once awarded, the CE Mark permits the marketing of the product throughout the European Union.

drug eluting

Controlled release of one or more drugs by a chemical complex, such as a polymer coating.

endostapler

A stapling instrument used endoscopically for the purposes of fixing tissues to other tissues or devices.

endovascular stent graft

A stent graft that is deployed through a minimally invasive procedure, accessing the target vessel through the femoral arteries.

FDA

US Food and Drug Administration.

Investigational Device Exemption or IDE

An approval by the FDA for a device that permits its use in a clinical study to collect the safety and effectiveness data required for an application to market the device.

stent graft

A tubular device made of fabric attached to an expandable metal structure. Once the metal is expanded, the device forms a rigid tube.

Shareholder Information

Directors

Alistair Taylor Executive Chairman
Brian Howlett Chief Executive Officer
Tim Hall Finance Director
Richard Johnston Non-executive Director
Martin Rothman Independent Non-executive Director
Michael Stevens Senior Independent Non-executive Director

Company Secretary

Rhod Jones Company Secretary

Financial Calendar

Preliminary announcement of 2007 full-year results March 2008
Half-year results September 2008

Nominated Adviser and Broker

Nomura Code Securities Ltd
1 Carey Lane
London EC4R 9HA

Public Relations

Financial Dynamics Limited
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Solicitors

Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA

Patent Agent

Williams Powell
Morley House
26-30 Holborn Viaduct
London EC1A 2BP

Website

www.lombardmedical.com

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Auditors

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington
East Midlands DE74 2UZ

Principal Banker

Bank of Scotland
London Chief Office
London SW1Y 5WX

Registered Office

Lombard Medical House
4 Trident Park
Didcot
Oxfordshire OX11 7HJ
Telephone: 01235 750800

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.....
CarbonNeutral[®] company

Head Office

Lombard Medical Technologies PLC
4 Trident Park
Didcot
Oxfordshire
OX11 7HJ
UK

T +44 (0) 1235 750800

F +44 (0) 1235 750879

E enquiries@lombardmedical.com

www.lombardmedical.com

