



## Preliminary results

### Press Information

#### Lombard Medical Technologies PLC

#### Unaudited Preliminary Results for the Year ended 31 December 2006

**London, UK, 15 June 2007** – Lombard Medical Technologies PLC (AIM: LMT), the specialist medical device company, today announces its unaudited results for the year ended 31 December 2006.

### Operating Highlights

- CE mark approval granted for second generation Aorfix™, with flexible delivery system
- Excellent two-year follow-up data announced for Aorfix™
- Strategic distribution and licensing agreement concluded with Medtronic Inc. for EndoRefix™
- CE mark approval granted for EndoRefix™
- Number of implants undertaken in 2006 increased to 105 (2005: 47)
- Experienced management team assembled
- US office established to support US clinical trials
- Two research collaborations signed for novel treatments for coronary restenosis

### Financial Highlights

- £7.4m fundraising announced today (see separate statement)
- Over threefold increase in turnover to £517,000 (2005: £169,000)
- Investment in R&D increased to £4.8 million (2005: £3.2 million)
- Loss for the financial year decreased 13% to £10.4 million (2005: £12.0 million)
- Payment of £2.0 million made for the distribution to the minority shareholders of Lombard Medical Plc upon its members' voluntary liquidation
- Year-end cash and short-term deposits of £4.4 million (2005: £16.3 million)

Alistair Taylor, Executive Chairman of LMT, commented:

*“2006 has been a year of significant challenge and accomplishment for the Company; however, we are now experiencing strong growth in our European business (with over 250 implants now performed) and progress with our pivotal US clinical trial. Aorfix™ continues to receive strong endorsement from the top clinicians, and the excellent 2-year follow-up data announced in September further demonstrated the unique features of Aorfix™.”*

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**Lombard Medical Technologies PLC**

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**Notes to editors**

**About Lombard Medical**

Lombard Medical Technologies PLC is a medical devices group developing stent grafts and other medical products for use in the treatment of vascular disease. The Company's lead product, Aorfix™, is a stent graft for the treatment of aortic aneurysms, a balloon-like enlargement of the aorta which, if untreated, may rupture and cause death. Abdominal and thoracic aortic aneurysms are the 13<sup>th</sup> largest cause of death in the US and the market is estimated to be worth approximately US\$2 billion by 2010. Aorfix™ is currently being commercialised in the EU, with US clinical trials having commenced during 2006. The Company's Polymer Coatings Division primarily develops polymer coatings for use in drug eluting stents and has a number of research collaborations developing novel products for this \$5-6bn market.

The Company, headquartered in Oxfordshire, with operations in Yorkshire and Boston, USA, employs over 90 people.

Further background on the Company can be found at [www.lombardmedical.com](http://www.lombardmedical.com).

## **Chairman's Statement**

2006 was a year of significant challenge and accomplishment for the Company. Despite having to overcome a series of challenges during the year, considerable growth has been achieved in the European business. Aorfix™ has now been successfully implanted in over 250 patients in 18 countries and momentum continues to build in the pivotal US clinical trial. The positive results from the two-year follow-on data of Aorfix™, which showed that there was no evidence of migration or device-related endoleaks and aneurysm sac shrinkage in 83% of patients, compared favourably with competitor products.

2006 was also a tough year for the industry generally; two major US companies temporarily ceased their activities in the abdominal aortic aneurysm (AAA) stent graft market due to the limitations of their devices, one of them for the second time. This has demonstrated the difficulties of succeeding in such a challenging market, even when significant resources have been dedicated.

During 2006, the Company decided, after discussions with Boston Scientific Inc. ("Boston"), to continue with its own distribution of Aorfix™ in territories outside the USA as Boston had decided to close their in-house activities in endovascular AAA surgery. Despite this, the Company understands that Boston continue to believe that the market for AAA endovascular surgery will grow significantly over the next ten years. Boston currently maintains a shareholding of 9% in the Company, along with a right of first refusal over the Cardiovascular Devices Division and its main assets.

## **Strategy**

In light of the decision by Boston, the Board assessed several alternatives for its strategy to market and distribute Aorfix™ in Europe and the USA, where it had been expected that Boston would want to secure rights to Aorfix™ at the time of taking up its option.

The Board decided that Shareholders' interests would be best served by a strategy of:

- continuing to market Aorfix™ through a select group of national distributors outside the US, supported by clinical specialists in major markets;
- progressing further the pivotal US clinical trial for Aorfix™ before engaging a strategic marketing partner in the US;
- investing in manufacturing capacity and capability to meet forecast demand for Aorfix™, so as to reduce both reliance on external suppliers and unit costs;
- completing negotiations with Medtronic regarding EndoRefix™;
- focusing available product development resources on the thoracic stent graft project;
- building a portfolio of novel projects within the Polymer Coatings Division that would be attractive licensing candidates to other medical device companies; and
- disposing of trade investments and raising further equity finance to fund implementation of this strategy.

## **Funding**

The Company has conditionally raised £6.6 million net of expenses through the placing and subscription of 29.5 million ordinary shares at an issue price of 25 pence (being a 9% discount to the average mid-market price in the week prior to the date of this announcement). Warrants will be issued in a ratio of three "A" and three "B" warrants for every 20 shares placed or subscribed. "A" warrants allow the holder to subscribe for an extra share at an exercise price of 31 pence within three years of the date of the warrant whilst "B" warrants will allow the holder to subscribe for an extra share at an exercise price of 37 pence within five years of the date of the warrant.

## **Board Change**

Nigel Gray has retired as a Non-executive Director of the Company. The Board would like to express its appreciation for the contribution that Nigel has made to the Company's progress during his tenure, and wishes him well in his future endeavours.

### **Strategic Partnership**

The Company was delighted to announce that it had entered a strategic partnership with Medtronic Inc. for its EndoRefix™ endostapler device, which Medtronic will be distributing on a worldwide basis. EndoRefix™ will be marketed by Medtronic under the brand name Securant™.

The terms of the agreement between Medtronic and the Company include:

- an exclusive worldwide distribution agreement for a period of three years, extendable for a further two years for the use of the device in AAA endovascular surgery;
- co-exclusive worldwide distribution rights for use in thoracic endovascular surgery;
- a co-exclusive licence for the use of EndoRefix™ technology in the development of “next generation” vascular devices, subject to receipt of a \$3 million milestone payment to the Company due on FDA approval of EndoRefix™, with royalty payments of up to \$5 million payable on sales of resulting products;
- a loan facility of \$3 million being made available to the Company on effect of the distribution agreement; and
- retention of exclusive rights to use EndoRefix™ and its technology in markets outside of vascular surgery, such as percutaneous heart valve fixation in cardiovascular surgery, as well as other applications in urology and GI indications.

### **Employees**

Following the Company's successful IPO in 2005, the Company has recruited an experienced tier of senior management. The benefit of this experience along with differing skill sets, has contributed to the development of the Company during the past year, and has positioned the Company well for continuing growth.

In 2006, headquarters were opened in Boston, USA. The team in Boston will take responsibility for driving forward the US clinical trials, under the leadership of its President, Peter Phillips, who was one of the founders of the Cardiovascular Devices Division.

The Board would like to express their appreciation to all of the Company's employees who have made such a significant contribution in bringing the Company successfully through what has been a challenging but finally successful year.

### **Alistair Taylor**

Executive Chairman

## **Business Review**

### **Introduction**

2006 has been a challenging year in the Company's history following a successful IPO at the end of 2005. The growing acceptance of Aorfix™ in the treatment of abdominal aortic aneurysms (AAAs) by an increasing number of vascular surgeons and interventional radiologists placed the Company's manufacturing capacity under pressure. Furthermore, following the decision by Boston to withdraw from the distribution of Aorfix™ outside the US all commercial activities will be undertaken by the Company for the foreseeable future. Despite these set-backs, the commercialisation of Aorfix™ in Europe has been encouraging with the product now available in 21 European countries and continuing to gain support among surgeons following the publication of excellent two-year follow-up data. The US clinical trial is also progressing well following the establishment of a US subsidiary to oversee the trial.

### **Growing Clinical Endorsement of Aorfix™**

The number of successful implants of Aorfix™ grew from 47 in 2005 to 105 undertaken in 2006, despite the product being off the market in December and local distributor concerns about Boston's intentions prior to late August. At the Cardiology and Interventional Radiology Society of Europe (CIRSE) congress in September 2006 in Rome, two-year follow-up data were presented on patients with straightforward and angulated anatomy. These data confirmed that the grafts were maintained in situ in patients with no evidence of migration or endoleaks. In addition 83% of patients showed a significant shrinkage of the aneurysm sac. It is encouraging that this proportion of patients had shown a positive result at this mid-term follow-up point. This demonstrates that the unique features of the Aorfix™ stent graft in terms of its flexibility and conformability to most types of vasculature quickly gains control and reduces pressure in the aneurysm sac. The initial two endovascular cases in the US trial of the device showed similar sac shrinkage at 6 months. To date there have been over 250 implants of Aorfix™ spread throughout 15 European countries, Australia, Brazil and the USA. In April 2006, the Company also received a CE Mark for the improved version of Aorfix™ that is much preferred by physicians due to the smaller diameter and greater flexibility of the delivery device which has improved access through tortuous iliac arteries. Enhancements to the graft also include electropolished wire to improve corrosion resistance and better visibility under X-ray. An increase in shelf-life for the improved version of Aorfix™ to two years was welcomed by the Company's distributors.

### **Successful Commercialisation of Aorfix™**

During 2006, the sales force has been rebuilt and extended to include support for a growing network of leading distributors in the major markets in continental Europe, especially Germany, Italy, France and Spain.

There are now six trained clinical proctors from the Company and leading vascular surgery centres in the UK, the Netherlands, Czech Republic and Greece, who will support the rapid adoption of Aorfix™ in Europe and elsewhere through 2007 and beyond. During 2007 more seminars are planned to train additional clinical proctors who will support the next wave of new Aorfix™ centres adopting the technology from 2008.

The Company markets its Aorfix™ stent graft directly through its own sales force in the UK and through distributors in other countries. The Company now has distributors operating in 20 European countries plus Brazil.

The publication of an abstract in the *Vascular* journal by Jean-Noel Albertini, MD *et al.* of the Vascular Surgery Department, Hospital Robert Debre, Reims, France, which concluded that the Company's Aorfix™ stent graft was the only device which did not develop endoleaks, regardless of the angulation of the neck of the abdominal aorta, was extremely gratifying. There is now a growing body of evidence to suggest that Aorfix™ is the only stent graft that can successfully treat AAAs with severely angulated necks.

### **Meeting the Growing Demand for Aorfix™**

Production capacity increased three fold during the year as the Company moved to a continental shift pattern and changes were made to working practices. However, the Company was unable to fulfil all the demands from its distributors and customers. Changes made to the manufacturing processes to increase mid-term capacity actually hindered the ability to meet short-term demand as operator and

management time was diverted onto training new staff and improving the efficiency of various processes. Furthermore, clinical procedures were voluntarily suspended between 11 December 2006 and 30 January 2007. This voluntary suspension of European clinical procedures involving the Aorfix™ Generation II endovascular stent graft was a precautionary measure implemented by the Company following the discovery of a problem with the placement of the graft in eight procedures.

Following thorough analysis of intra-operative X-ray files and extensive laboratory testing, the cause of the inaccuracy was isolated to a manufacturing step in which the stent graft is loaded into its delivery tube. The manufacturing process was adjusted and intensively tested prior to the product being released back into the market.

During this time, the Company worked closely with leading clinicians and regulatory authorities in the UK and Germany to keep them informed of the clinical experience in 2006 and the manufacturing changes made. Further improvements have been identified and are being incorporated into manufacturing through 2007.

To have identified and solved the problem of the delivery system within seven weeks demonstrated the dedication of the management and staff involved and was extremely gratifying. The recommencement of clinical procedures in January 2007 was good news for those patients with difficult anatomies for which Aorfix™ is the only endovascular option.

During the course of the year a team of production and quality engineers have been assembled to deal with the requirement for rapid growth in production capacity. A highly experienced QA/QC director, David Clennell, has been appointed from a senior position within Johnson & Johnson and joined the Company in early 2007. The regulatory team was also strengthened in 2006 by the appointment of Jan Champion as Director of International Regulatory Affairs from a senior position in the Cardiovascular Division of Medtronic Inc. Based in the USA, Jan's principal responsibilities include completion of recruitment into the pivotal Aorfix™ US clinical trial by H1 2008 and full PMA approval by the end of 2009.

#### **Focus on the US Market**

Recognising the importance of the US market in successfully commercialising Aorfix™, the Company set up a subsidiary operation in Boston, MA led by Peter Phillips, a co-developer of Aorfix™. The US operation has an experienced clinical and regulatory team and the resources to achieve regulatory approval of Aorfix™ in the USA.

#### ***US Aorfix™ Clinical Trial***

Following receipt of the IDE from the FDA, the Company began the process of contracting clinical centres for its pivotal US clinical trial of the Aorfix™ endovascular stent graft in the treatment of AAAs in Q1 2006 and the first implant was performed in April 2006.

Despite delays in the negotiation of clinical contracts and product shipment issues during parts of 2006 the trial is now gaining momentum through the efforts of the new US office and Director of International Regulatory Affairs. Furthermore, a series of supplemental IDE submissions has been designed to improve patient recruitment rates. The first of these, to allow the Company to use the improved version of Aorfix™ launched in Europe in April 2006, was filed in March 2007 and was approved in April 2007. The second, to allow the trial to move to 20 centres and recruit patients with aneurysms with neck angulations from 0° to 90°, was submitted in April 2007 with conditional approval received in May 2007. This supplemental IDE also requested a reduction in the number of patients for whom data are to be submitted from 385 to 220 based on new statistical analysis.

Clinical investigators are particularly interested to use Aorfix™ in those patients with aneurysms with neck angulations of 60° to 90° for which there is no approved alternative endovascular stent graft.

Further potential supplemental IDE submissions for the study of Aorfix™ in other AAA sectors with a high medical need are currently being considered.

There are currently 12 centres screening for patients of which nine have contributed and there have been 13 Aorfix™ implants and 19 open surgery control procedures performed.

As the trial requires patients to be followed up for a period of twelve months following implantation of the device the Company does not expect to file a PMA for Aorfix™ until H1 2009.

## **Building the Leadership Team for Future Revenue and Profit Growth**

During the year the Company has increased and developed the depth and breadth of its management team in the key areas of sales and marketing, quality, production, finance and human resources. The leadership team is now in place to drive sales and profit growth from the unique attributes of Aorfix™ in the treatment of AAAs. Arising from an aging population and growing incidence of high blood pressure and obesity, and better screening, diagnosis in the US alone is expected to reach 300,000 per annum, by 2010. The world-wide market for endovascular treatment of this condition is expected to be \$1 billion by the end of the decade.

## **Pipeline Product Developments**

### ***Endostapler***

In November 2006 the Company achieved CE mark approval for the EndoRefix™ stapling device for the secure fixation of first generation endovascular stent grafts used in the treatment of AAAs.

EndoRefix™ was recognised as best in class in the Innovation Showcase session at the 29<sup>th</sup> Charing Cross Endovascular Symposium in April 2006, London, England partly as a result of its many different potential applications including the fixation of thoracic aortic aneurysm (TAA) stent grafts, percutaneous heart valve fixation and uses in urinary or gastro-intestinal surgery.

### ***Thoracic Stent Graft***

The Company has an endovascular stent graft for thoracic aortic aneurysms (TAAs) in the latter stages of design with pre-clinical trials expected to start this year and clinical trials in the second half of 2008. The Company's medical advisers are encouraged that this more conformable and flexible graft with its delivery system will cover a large unmet clinical need for a wider choice of endovascular approaches to the treatment of aneurysmal disease in the thoracic aorta.

Work on this project and the development of a low profile, truly percutaneous approach to the treatment of AAAs was delayed in 2006 because the engineering team was prioritised towards the commercialisation of Aorfix™ and EndoRefix™.

### ***Polymer Coatings Division***

The Polymer Coatings Division's work in developing a second generation Drug Eluting Stent (DES) technology platform has shown significant progress in 2006. A consortium with Axordia and the University of Sheffield has commenced work on a regenerative stent research programme using endothelial cells grown from a single stem cell line. This novel combination with the Company's programmable polymer coating would potentially accelerate the healing process of the vessel in which the stent is placed, thus avoiding late-stent thrombosis reported recently in first generation coated stents.

This research programme was awarded £0.9m of funding from the Department of Trade and Industry (DTI) and the Medical Research Council (MRC). A research collaboration has also been commenced to develop a new drug and drug eluting polymer combination for the treatment of coronary stent restenosis. In this case the research partner is Amgen, and programme relates to the delivery of a proprietary anti-inflammatory drug to the wall of the coronary vessel.

## **2006 Highlights**

The Company has risen to the major challenges associated with the change of strategy and business model necessitated by the withdrawal of Boston from exercising its option to distribute Aorfix™ outside US markets.

A senior management team with the experience and talent to take the Company's potentially world-beating technologies to maximum sales revenue and earnings has been assembled.

Aorfix™ implants have continued to show extremely encouraging clinical performance in the short and medium term data collected and published. Confirmation of freedom from Type 1 endoleaks, no stent graft migration and aneurysm sac shrinkage was presented in 12 month and 24 month follow-up data presented at two major international congresses, 29<sup>th</sup> Charing Cross Endovascular Symposium in April 2006 and CIRSE in Rome during September 2006.

The Company has an exciting pipeline of other products addressing unmet clinical needs in aneurysmal disease of the thoracic aorta and coronary vessel disease where its emerging technologies create a platform for a family of second generation drug eluting stents. Endorsement of

the potential of all its technologies is apparent from the important partnerships signed with leading companies such as Medtronic and Amgen in 2006.

**Outlook**

At the 30<sup>th</sup> Charing Cross Endovascular Symposium in April 2007 there was a growing acceptance amongst clinicians that Aorfix™ was at least as good if not better than existing endovascular stent grafts in AAA repair. This added to the product's unique ability to treat those patients with highly tortuous anatomies augers well for the future.

**Brian Howlett**

Chief Executive Officer

## **Finance Director's Report**

### **Revenue**

Total revenue increased more than three fold to £517,000 (2005: £169,000) of which £44,000 related to contract development work performed by the Polymer Coatings Division (2005: £nil). Sales of Aorfix™ were adversely impacted by the voluntary suspension of clinical procedures in December and the subsequent issue of credit notes for returned stock but still grew by 178% to £469,000 (2005: £169,000).

### **Gross Profit**

Gross profit for the year increased 30% to £107,000 (2005: £82,000). The gross margin of 20.7% (2005: 48.5%) was negatively impacted by the issue of credit notes and write-off of returned stock arising from the voluntary suspension of clinical procedures in December.

### **Operating Expenses**

The Group's operating expenses increased by £1.6 million to £11.7 million (2005: £10.1 million). A ramp-up in sales and marketing activities accounted for £1.0 million of the increase as selling, marketing and distribution expenses increased to £1.9 million (2005: £0.9 million).

The Company's investment in R&D increased to £4.8 million in 2006 (2005: £3.2 million) reflecting higher costs associated with the commencement of the pivotal US clinical trial for Aorfix™, headcount increases and increased product development costs on EndoRefix™ and the Gen II Aorfix™ device both of which received CE Mark approval in Europe during 2006.

The increases in selling, marketing and distribution, and R&D expenses were partially offset by a reduction in general and administrative expenses of £0.9 million to £5.1 million (2005: £6.0 million). The decrease in general and administrative expenses mainly arose from the absence of exceptional items in 2006 (2005: £1.8 million), partially offset by a £0.5 million increase in share-based compensation expense to £0.7 million (2005: £0.2 million) relating to the issue of share options in the last quarter of 2005, plus a £0.3 million increase in legal and professional fees partly due to the Company's transition to a public company in December 2005.

### **Interest Receivable**

Interest receivable increased to £569,000 (2005: £49,000) as a result of increased money deposits arising from the proceeds from the Company's IPO in December 2005.

### **Interest Payable**

Interest payable decreased to £6,000 (2005: £1,998,000) following the conversion of outstanding preference shares into ordinary shares in December 2005 and the repayment of outstanding loans with the proceeds from the Company's IPO, also in December 2005.

### **Taxation**

The R&D tax credits recoverable are only recorded on receipt of confirmation of a claim. In 2006 £0.2 million was received in respect of a claim for 2004 and confirmation of a claim of £0.4 million in respect of 2005 was received giving a total tax credit in the 2006 accounts of £0.6 million (2005: £nil).

### **Loss for the Financial Year**

The loss for the financial year decreased by 13% to £10.4 million (2005: £12.0 million). The decrease of £1.6 million was principally due to higher interest receivable, lower interest payable and the receipt of R&D tax credits partly offset by higher operating expenses.

### **Capital Expenditure and Financial Investment**

Capital expenditure and financial investments in the year decreased to £0.3 million (2005: £0.7 million). The 2006 outflow relates wholly to capital expenditure (2005: £0.1 million) whereas the 2005 outflow included a £0.2 million investment in EndoArt SA and the purchase of various patents and intellectual property relating to Aorfix™ from Pearsalls Sutures for £0.4 million.

## **Acquisitions and Disposals**

On 28 February 2006 at an Extraordinary General Meeting of the Company's 94.4% owned subsidiary Lombard Medical Plc, a special resolution was passed for the company to be voluntarily wound up. Lombard Medical Plc had not traded since September 2004 when its business and assets were sold to the Company for £25.1 million. The consideration was satisfied by way of an intra-group loan that became repayable on demand following the Company's flotation. A members' voluntary liquidation of Lombard Medical Plc was considered the most cost-effective method of distributing the minority shareholders' interest in this loan. Pursuant to which a payment of £2.0 million was made to the liquidators of Lombard Medical Plc for the distribution to the minority shareholders and related expenses.

## **Operating Cash Flow**

Net cash outflow before financing for the year rose by £3.5 million to £12.1 million (2005: £8.6 million) primarily due to: the increased operating loss; increases in the working capital requirement; and the payment arising from the distribution to the minority shareholders of Lombard Medical Plc; partially offset by, increases in non-cash charges; greater cash flows from returns on investments and servicing of finance; and reduced expenditure on fixed assets and investments.

## **Financing**

In 2006 the net cash inflows from financing of £0.1 million (2005: £25.4 million) related wholly to the issue of shares pursuant to the exercise of share options.

In 2005 the Company successfully raised a total of £30.9 million before expenses of which £3.1 million came from an issue of convertible preference shares (subsequently converted to ordinary shares and deferred shares), £1.6 million from the issue of ordinary shares to Camden Partners at the time of the flotation and £26.2 million on flotation through the placing of 16.5 million ordinary shares with a group of leading UK and European institutions at a price of 159 pence per share. Expenses related to these share issues totalled £2.7 million.

Following the flotation, loans and overdrafts totalling £6 million were repaid.

## **Treasury**

The Company's policy is to invest surplus funds in money-market and short-term bank deposits. The Company seeks to maximise returns whilst at the same time safeguarding the principal by only placing deposits through institutions with good credit ratings.

As at December 2006, the Company had cash and short-term deposits of £4.4 million (2005: £16.3 million).

## **Loss per share**

The net loss per share decreased by 86% to 21.0 pence (2005: 151.2 pence) principally as a result of an increase in the average number of shares in issue to 49.7 million (2005: 7.9 million).

## **Headcount**

Headcount at 31 December 2006 was 90 (2005: 49) with the increase of 41 coming from increases in headcount in: manufacturing (+22); R&D (+11); sales and marketing (+7) and finance (+1).

## **International Financial Reporting Standards**

The Company's first financial report adopting IFRS will be the 2007 interim accounts. A brief review of the affect of adopting IFRS has highlighted the impairment testing rather than amortisation of goodwill as the only item likely to have a material impact on the Group's reported losses. In 2006 the goodwill amortisation charged to the profit and loss account was £1.3 million.

## **Post Balance Sheet Events**

On 22 February 2007, EndoArt SA was acquired by Allergan Inc. for \$97 million, net of excess cash. The Group's share of the consideration is \$3.15 million of which the Group received \$2.75 million (£1.4 million) on 23 February 2007, with the remaining \$0.40 million being held in escrow until February 2009 pending any potential warranty claims made by Allergan under the terms of the purchase agreement. The Group's shareholding had been acquired for a total cost of £1.1 million but impairment charges had reduced the book value to £0.3 million as a result of which the Group will record a profit of £1.1 million from the sale in 2007.

The Company has conditionally raised £6.6 million net of expenses of £0.8 million from the placement and subscription of 29.5 million ordinary shares at a price of 25 pence per share. Warrants will be issued in a ratio of three "A" and three "B" warrants for every 20 shares placed or subscribed. "A" warrants allow the holder to subscribe for an extra share at an exercise price of 31 pence within three years of the date of the warrant whilst "B" warrants will allow the holder to subscribe for an extra share at an exercise price of 37 pence within five years of the date of the warrant. The issue of these shares and warrants is subject to shareholder approval at the Extraordinary General Meeting to be held on 9 July 2007.

### **Going Concern**

The financial statements have been prepared on a going concern basis on the grounds that the Directors believe that the shareholders will approve the share issues noted above required to fund the Company for the foreseeable future. However, for the Company to be able to continue with its current business plan, and in the absence of proceeds from the sale of its remaining trade investment, the Company will need to raise further funds in the next twelve months in order to take the business to the point where it becomes cash generative.

### **Tim Hall**

Finance Director

## Consolidated Profit and Loss Account

for the year ended 31 December 2006

	Note	2006 (Unaudited) £'000	2005 (Audited) £'000 as restated
<b>Turnover</b>	2	<b>517</b>	169
Cost of sales		<b>(410)</b>	(87)
<b>Gross profit</b>		<b>107</b>	82
Selling, marketing and distribution expenses		<b>(1,869)</b>	(893)
Research and development expenses		<b>(4,785)</b>	(3,157)
Administrative expenses (including exceptional items)		<b>(5,085)</b>	(6,039)
Operating expenses (including exceptional items)		<b>(11,739)</b>	(10,089)
Operating loss before goodwill amortisation, share-based compensation and exceptional items		<b>(9,646)</b>	(6,749)
Share-based compensation expense		<b>(727)</b>	(223)
Exceptional items	3	—	(1,754)
Amortisation of goodwill		<b>(1,259)</b>	(1,281)
<b>Operating loss</b>		<b>(11,632)</b>	(10,007)
Bank interest receivable and similar income		<b>569</b>	49
Interest payable and similar charges	4	<b>(6)</b>	(1,998)
<b>Loss on ordinary activities before taxation</b>		<b>(11,069)</b>	(11,956)
Taxation	5	<b>646</b>	—
<b>Loss for the financial year</b>		<b>(10,423)</b>	(11,956)
<b>Basic and diluted loss per share (pence)</b>	6	<b>(21.0)</b>	(151.2)

All activity relates to continuing operations.

The Group has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above, and their historical cost equivalents.

Comparative figures have been restated in accordance with FRS 20 "Share-based payment".

## Consolidated Balance Sheet

as at 31 December 2006

	Note	2006 (Unaudited) £'000	2005 (Audited) £'000
<b>Fixed assets</b>			
Intangible assets		907	2,215
Tangible assets		362	301
Investments – unquoted		2,825	2,825
		<b>4,094</b>	5,341
<b>Current assets</b>			
Stocks		470	318
Debtors		1,097	475
Cash at bank and in hand		4,362	16,342
		<b>5,929</b>	17,135
<b>Creditors: amounts falling due within one year</b>		<b>(1,817)</b>	(2,893)
<b>Net current assets</b>		<b>4,112</b>	14,242
<b>Net assets</b>		<b>8,206</b>	19,583
<b>Capital and reserves</b>			
Called up share capital		4,223	4,201
Share premium account		25,537	25,420
Other reserve		11,118	11,118
Profit and loss account		(32,672)	(22,976)
<b>Equity shareholders' funds</b>	8	<b>8,206</b>	17,763
Equity minority interests		—	1,820
<b>Capital employed</b>		<b>8,206</b>	19,583

## Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Note	2006 (Unaudited) £'000	2005 (Audited) £'000
<b>Net cash outflow from operating activities</b>	7	<b>(10,520)</b>	(7,637)
<b>Returns on investment and servicing of finance</b>			
Interest received		449	49
Interest paid		(6)	(452)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<b>443</b>	(403)
<b>Taxation received</b>		<b>276</b>	209
<b>Capital expenditure and financial investment</b>			
Purchase of investments		—	(231)
Purchase of intangible fixed assets		—	(423)
Purchase of tangible fixed assets		(305)	(94)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(305)</b>	(748)
<b>Acquisitions and disposals</b>			
Payments relating to the distribution to the minority shareholders of Lombard Medical Plc upon its members voluntary liquidation		(2,013)	—
<b>Net cash outflows from acquisitions and disposals</b>		<b>(2,013)</b>	—
<b>Net cash outflow before financing</b>		<b>(12,119)</b>	(8,579)
<b>Financing</b>			
Issue of ordinary shares		157	26,181
Issue of preference shares		—	3,150
Share issue expenses		(18)	(2,121)
Loans advanced		—	1,550
Repayment of loans		—	(3,342)
<b>Net cash inflow from financing</b>		<b>139</b>	25,418
<b>(Decrease)/increase in cash in the period</b>		<b>(11,980)</b>	16,839

## Notes to the Financial Statements

for the year ended 31 December 2006

### 1. Basis of Preparation

The financial information for 2005 has been extracted from the statutory accounts for the year ended 31 December 2005 as restated for the impact of FRS 20 "Share-based payment", which have been delivered to the registrar of companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237(2) or (3) of the Companies Act 1985. The adoption of FRS 20 in 2006 had no impact on reported net assets but led to a charge of £727,000 in 2006 and £223,000 in 2005 for share-based compensation expense.

These unaudited preliminary financial statements have been prepared on a going concern basis and as such assume that shareholders approve the proposed raising of £6.6 million net of expenses through the placing and subscription of 29.5 million ordinary shares. At 31 May 2007 the Company had cash of £1.9 million. For the Company to be able to pursue its stated strategy, it is essential that the Company raises the proceeds pursuant to the proposed Placing and Subscription. The Company will have insufficient resources to continue to trade beyond July of this year if the related Resolutions are not passed and the Board is unable to find alternative sources of funding. Furthermore, for the Company to be able to continue with its current business plan and in the absence of proceeds from the sale of its remaining trade investment, the Company will need to raise further funds in the next twelve months in order to take the business to the point where it becomes cash generative. The Directors believe that shareholder approval will be provided for the current placing and subscription of shares and that the Company will be able to raise further funds during the next year either through the issue of securities and/or the sale of non-core assets and hence regard it as appropriate that these financial statements are prepared on a going concern basis.

The financial information contained in this announcement of preliminary financial statements does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985. Neither the Directors of the Company, nor the auditors, have as yet approved the statutory financial statements for the financial year ended 31 December 2006. These financial statements are therefore unaudited. The statutory accounts for the year ended 31 December 2006 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

### 2. Segmental Reporting

<b>Business Analysis</b>	<b>2006 (Unaudited) £'000</b>	<b>2005 (Audited) £'000 as restated</b>
<b>Turnover</b>		
Cardiovascular devices	<b>473</b>	169
Polymer coatings	<b>44</b>	—
	<b>517</b>	169
<b>Loss on ordinary activities before taxation</b>		
Cardiovascular devices	<b>(7,292)</b>	(5,561)
Polymer coatings	<b>(410)</b>	(576)
Central costs	<b>(3,930)</b>	(3,870)
<b>Operating loss</b>	<b>(11,632)</b>	(10,007)
Net finance income/(cost)	<b>563</b>	(1,949)
	<b>(11,069)</b>	(11,956)

<b>Business Analysis</b>	<b>2006 (Unaudited) £'000</b>	2005 (Audited) £'000 as restated
<b>Net assets</b>		
Cardiovascular devices	<b>1,033</b>	1,823
Polymer coatings	<b>156</b>	241
	<b>1,189</b>	2,064
Central	<b>2,655</b>	1,177
Net cash	<b>4,362</b>	16,342
	<b>8,206</b>	19,583

Central net assets comprise assets, partially offset by liabilities that cannot practically be divided between the segments.

Analyses by business are based on the Group's management structure. Turnover between segments is immaterial. Turnover and activity arises as follows:

<b>Segmental Analysis by Country of Origin</b>	<b>2006 (Unaudited) £'000</b>	2005 (Audited) £'000 as restated
<b>Turnover</b>		
UK	<b>488</b>	169
USA	<b>29</b>	—
	<b>517</b>	169
<b>Loss on ordinary activities before tax</b>		
UK	<b>(10,623)</b>	(11,956)
USA	<b>(446)</b>	—
	<b>(11,069)</b>	(11,956)
<b>Net assets</b>		
UK	<b>8,660</b>	19,583
USA	<b>(454)</b>	—
	<b>8,206</b>	19,583
<b>Turnover by destination</b>		
	<b>2006 (Unaudited) £'000</b>	2005 (Audited) £'000
UK and Europe	<b>488</b>	160
USA	<b>29</b>	9
	<b>517</b>	169

### 3. Exceptional Items

	<b>2006</b> <b>(Unaudited)</b> <b>£'000</b>	2005 (Audited) £'000
Corporate finance and associated corporate advisory expenses	—	(470)
Bank facility forbearance and arrangement fees	—	(555)
Board and other restructuring costs	—	(729)
	<hr/>	<hr/>
	—	(1,754)

On 13 December 2005 the Company was listed on AIM. There was an associated placing of 16,466,359 new ordinary shares at the time of the listing. Costs directly related to the fund raising such as those of the Company's Nominated Advisor and Broker were set against the share premium account. However, costs relating to advice given on running a public company, market research and other costs linked to the IPO but not directly related to the fund raising were included in the profit and loss account for 2005 as an exceptional item along with bank fees related to the bank's continued support during the period up to receipt of the placing proceeds.

In November 2005, Stephen Terry and John Kerslake resigned from the Board. Their compensation for loss of office is included as an exceptional item in 2005 along with the termination costs of several sales force personnel.

### 4. Interest Payable and Similar Charges

	<b>2006</b> <b>(Unaudited)</b> <b>£'000</b>	2005 (Audited) £'000
Bank interest payable	—	(188)
Camden Partners loan interest	—	(124)
Lion Capital Partners loan interest	—	(141)
Other interest payable	<b>(1)</b>	—
Minority share of interest payable intra-group	<b>(5)</b>	(56)
Preference shares:		
Dividend at 8% on amount paid up	—	(912)
Appropriations	—	(577)
	<hr/>	<hr/>
	<b>(6)</b>	(1,998)

### 5. Taxation on Loss on Ordinary Activities

The net credit of £646,000 (2005: £nil) relates to the utilisation of UK tax losses from prior year research and development expenditure to reclaim payroll taxes paid of £654,000 less overseas taxation payable of £8,000.

Taxation losses carried forward at the end of the year amounted to approximately £33 million and the unrecognised deferred tax asset at 30% is approximately £9.9 million. No deferred tax asset has been recognised in respect of these losses as the Directors consider it is, as yet, uncertain whether the losses will be utilised. Tax losses would be utilised in future periods against trading profits or the reclaiming of payroll taxes (at a lower effective rate).

The current tax credit of £nil is lower than the standard UK corporation rate of 30% applied to the loss for the period. The differences are explained below:

	<b>2006</b> <b>(Unaudited)</b> <b>£'000</b>	2005 (Audited) £'000 as restated
Loss before tax for the period at 30%	<b>(3,321)</b>	(3,587)
Additional deduction for research and development expenditure	<b>(200)</b>	(200)
Amounts not deductible for tax purposes including amortisation of goodwill, share-based compensation and preference share dividends	<b>422</b>	1,097
Losses carried forward	<b>3,099</b>	2,690
	<b>—</b>	—

## 6. 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 conversion of preference shares in prior periods 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 on the calculations are set out below:

	<b>2006</b> <b>(Unaudited)</b> £'000	2005 (Audited) as restated
Loss for the financial year £'000	<b>(10,423)</b>	(11,956)
Weighted average number of shares ('000)	<b>49,667</b>	7,906
Basic and diluted loss per share (pence)	<b>(21.0)</b>	(151.2)

## 7. Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities

	<b>2006</b> <b>(Unaudited)</b> <b>£'000</b>	2005 (Audited) £'000 as restated
Operating loss	<b>(11,632)</b>	(10,007)
Amortisation of goodwill	<b>1,259</b>	1,281
Depreciation and amortisation of licences	<b>293</b>	171
Share-based compensation expense	<b>727</b>	223
Increase in stocks	<b>(152)</b>	(171)
Increase in debtors	<b>(244)</b>	(267)
(Decrease)/Increase in creditors	<b>(771)</b>	1,133
<b>Net cash outflow from operating activities</b>	<b>(10,520)</b>	(7,637)

## 8. Reconciliation of Movements in Group Shareholders' Funds

	<b>2006</b> <b>(Unaudited)</b> <b>£'000</b>	2005 (Audited) £'000 as restated
Loss for the financial period	<b>(10,423)</b>	(11,956)
Reclassification of preference share interests as liabilities under FRS25	—	(10,376)
Share based compensation expense credited to reserves	727	223
Conversion of preference shares and loan to ordinary shares	—	16,250
Warrant reserve created	—	158
New share capital issued, including premium	<b>157</b>	26,181
Expenses of share issues	<b>(18)</b>	(1,964)
Net change in shareholders' funds	<b>(9,557)</b>	18,516
Opening shareholders' funds/(deficit)	<b>17,763</b>	(753)
<b>Closing shareholders' funds</b>	<b>8,206</b>	17,763

## 9. Post Balance Sheet Events

The Company expects the placing and subscription of 29,532,660 ordinary shares of 2 pence each to be approved by shareholders at an Extraordinary General Meeting on 9 July 2007 raising £6.6 million net of expenses of £0.8 million.