LiDCO Cardiac Sensor Systems

2014/15

LiDCO Group Plc Annual Report & Accounts for the year ended 31 January 2015

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About LiDCO

LiDCO is a supplier of non-invasive and minimally invasive hemodynamic monitoring equipment to hospitals. Our products are used principally in the treatment of high-risk patients in both critical care units and in the operating theatre. They monitor the amount of blood flowing around the body helping clinicians and nurses to ensure that vital organs are kept adequately perfused with oxygenated blood by the adjustment of supportive fluid and drugs.

Clinical studies show that the optimisation of the hemodynamic status of high-risk patients produces better outcomes. LiDCO's computer-based technology is proven to significantly reduce mortality, complications, length of stay and the overall costs associated with major surgery.

With few competitors, there is a large and growing market for LiDCO's monitors. Once installed our monitors generate high recurring revenues from single patient use disposables. LiDCO has established itself as a profitable leading edge innovator in the hemodynamic monitoring market which the Company believes is a potential $2 billion market opportunity.

www.lidco.com

Financial highlights

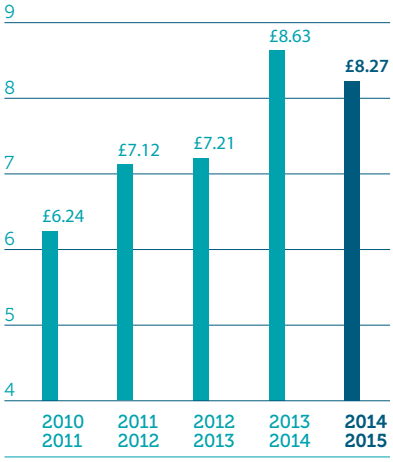
- Second consecutive profitable year, profit before tax* up **18%** to **£0.33m** (2013/14: £0.28m)
- Total revenue down **4%** to **£8.27m** (2013/14: £8.63m)
- Gross margins (excluding third party products) improved to **82%** (2013/14: 81%)
- Admin expenses reduced to **£5.49m** (2013/14: £5.66m)
- LiDCO product revenue (excluding third party products) **£6.63m** (2013/14: £6.87m)
- Surgical disposables revenue up **10%** to **£3.39m** (2013/14: £3.08m)
- Export sales up **9%** to **£2.67m** (2013/14: £2.46m); up 22% (excluding Japan)
- EBITDA* of **£1.06m** (2013/14: £1.15m)
- Earnings per share up **20%** to **0.18p** (2013/14: 0.15p)
- Debt free with cash at year end of **£1.51m** (2013/14:£2.37m)

Operational highlights

- 267 monitors installed (2013/14: 303); 210 surgical monitors (2013/14: 268)
- Surgical disposables sales up in all territories other than Japan with UK up 4% to 24,410 (2013/14: 23,570)
- Surgical disposables unit sales up 10% to 44,758 (2013/14: 40,660)

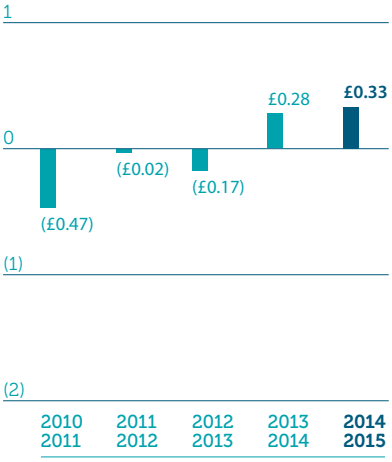
After year end

- Registration of LiDCO*rapid*^{v2} Unity software and non-invasive blood pressure module in Japan
- Study shows LiDCO detects blood loss fastest
- Grant in the UK of combined hemodynamic and depth of anaesthesia patent
- Grant of patent in Japan for improved method of deriving cardiac output



Revenue
£million

Gross profit
£million



Profit/(loss) from operations*
£million

* before share-based payments

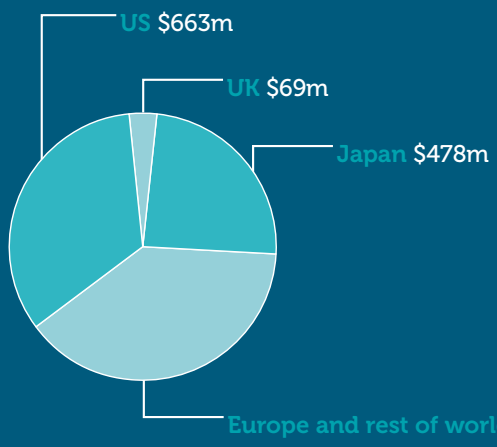
Positioned for growth

We aim to deliver long term, sustainable growth. Our strategy is to sell directly to hospitals in the UK and USA and through a network of specialty critical care and anesthesia distributors in Japan and the rest of the world.

As well as growing both domestic and international sales, we will develop and add more functions to our LiDCO*rapid* monitor platform, building acceptance and higher use through clinical outcome studies in targeted high-risk patient populations.

The surgical high-risk monitoring market is entering the growth early majority adoption phase in a number of territories. LiDCO expects surgery disposables to continue to grow in the UK, US, Japan and ROW territories. Higher levels of growth depend on further developing the market channel in territories where the opportunity has or is now entering mainstream adoption.

LiDCO's technology is portable and now completely non-invasive. This gives us the opportunity to further grow the market opportunity through extending the applications for our technology beyond the current peri-operative high-risk environment to additional surgical, interventional cardiology and medical settings.



Total potential market for disposables addressed by LiDCO*rapid*^{v2} is

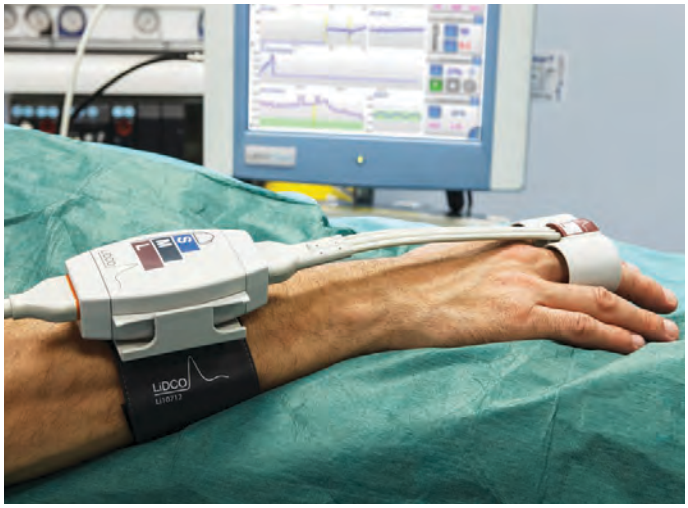
$2 billion

Our products

The increasing use of our products in the UK is a direct result of the growing adoption of fluid monitoring by the NHS. We have broadened the surgical monitor base in a number of key markets. Our technology is unique and underpinned by patent protection of the significant elements of the technology in the UK and in our major export markets.

The growing market acceptance of the benefits of fluid monitoring offers significant opportunities for LiDCO's innovative, leading-edge products. They are easy to use in a variety of clinical settings and are under continual development. They require a low level of in-service resourcing and deliver recurring income with high margins. All our monitors use single-patient disposables that deliver an ongoing revenue stream. Our business model provides us with the opportunity to scale-up production and sales with minimal increase in headcount.

We have a strong track record of regulatory approval and hold multiple patents with long remaining lives. We also benefit from several routes to market including direct sales, a distributor network, licence fees and royalties.



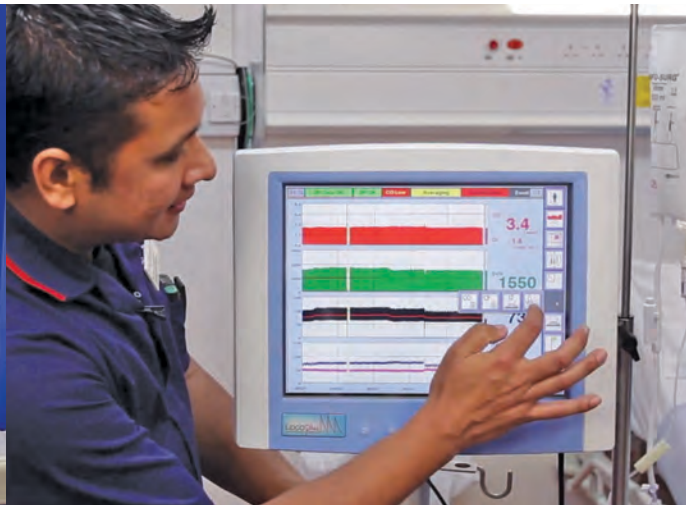
LiDCO*plus* a computer-based platform monitor used in the intensive care unit for real-time continuous display of hemodynamic parameters including cardiac output, oxygen delivery and fluid-volume responsiveness (PPV% and SVV%).

LiDCO*rapid* a cardiac output monitor designed specifically for use in the operating theatre and peri-operative arenas for fluid and drug management. The monitor enables anaesthetists to obtain immediate accurate feedback on a patient's fluid and hemodynamic status – a key measure of overall wellbeing before, during and after surgery.

LiDCO*view* an easy-to-use graphical display of historical LiDCO*plus* and LiDCO*rapid* hemodynamic data used for research and education purposes.

LiDCO*rapid*^{v2} with Unity software the world's first monitor designed specifically for multi-parameter monitoring of both depth of anesthesia and fluids. The Unity software incorporated into LiDCO*rapid*^{v2} allows the monitor to co-display Covidien's level of consciousness parameter and add the convenience of CNSystems' continuous non-invasive blood pressure (CNAP™*) monitoring. This addresses the growing requirement for more comprehensive non-invasive monitoring solutions that can effectively replace multiple single-parameter monitors.

* CNAP™ is a trademark of CNSystems Medizintechnik AG.



Strategic report

Over the year LiDCO made significant progress, particularly in its principal surgical monitoring business. The Company is pleased to report its second consecutive year of profitable trading. We are particularly gratified that we increased profits, managing the business well through challenging conditions in our domestic market and in Japan. Following an exceptionally strong 2014 performance, profits before tax and share-based payment charges were up 18%, despite a small reduction in overall revenues. Better gross margins coupled with good control of overheads offset the revenue variance. Importantly, and underpinning future commercial progress, the Company increased its installed base of hemodynamic monitors, particularly in the surgery market and grew its worldwide revenue from the associated high margin surgery disposables by 10%. In the UK, against a tougher financial background, the Company increased both its surgical disposables sales and market share. As anticipated, we ended the year free of debt.

Worldwide there are 240 million anesthetic procedures performed per annum of which 24 million are high-risk surgeries. During the year we informed investors of the publication of a number of exciting studies that used LiDCO's technology to achieve reduced complications and costs in a number of elective high-risk cancer surgery, cardiac surgery and post-surgical intensive care populations. In November 2014, UK investigators from four acute Trusts in a multi-centre trial showed that use of our LiDCO*rapid* monitor, as part of a care pathway for the treatment of emergency surgery patients, reduced 30-day mortality from 15.6% to 9.6%. This means that approximately 6 lives will be saved for every 100 patients monitored. Given these compelling results it is not surprising that interest in the identification and better treatment and monitoring of high-risk surgery patients continues to grow. We supply hemodynamic monitoring technology that can be used either minimally invasively or non-invasively, thus helping to achieve the right care throughout the hospital as and where required in the patient pathway of all high-risk emergency and elective surgery patients.

We benefit from our UK location where the NHS and clinicians lead the way in the adoption of advanced intraoperative fluid monitoring technology despite growing competition for funds. Globally, this is becoming a more widespread practice, particularly following the recent endorsement by the American Society of Anesthesiologists' Perioperative Surgical Home ('PSH') initiative. Our growing surgery disposable sales indicate that LiDCO's innovative platform monitor is increasingly being incorporated into what we believe is very likely to become a mainstream requirement for the perioperative care of high-risk patients. In response to the growing interest, we expect to expand our market access through the appointment of additional distribution partners, particularly in the fast emerging ROW territory in 2015. As the fluid and hemodynamic monitoring market continues to evolve and grow, we anticipate continued growth in our surgical disposables business, which is a key performance indicator for us.

Dr Terry O'Brien
Chief Executive Officer

FINANCIAL REVIEW

Revenues

With challenges in our domestic market and in Japan, total revenues for the year fell by 4% to £8.27m (2013/14: £8.63m) including sales of third party products of £1.64m (2013/14: £1.77m). Revenues from LiDCO's own product sales reduced by 3% to £6.63m (2013/14: £6.87m), following a 25% increase in the previous year. Further comment is provided below by territory.

Gross profit and margin

Overall gross profit fell by 3% to £5.73m (2013/14: £5.90m) but with gross profit margins, excluding third party products, improved from 81% to 82%. The margin achieved on the sale of third party products was constant at 20%.

Overheads

With tight cost control and a reduced amortisation charge, total overheads fell by £171,000 to £5.49m. Included in the prior year were non-recurring costs of approximately £100,000 relating to the reorganisation of the customer services department. Over the last three years overheads have increased by £690,000 (14%) including the significant cost of recommencing US direct sales. US direct sales costs increased by £128,000, the result of full year costs of the clinical educators who were recruited part way through the prior year.

Having considered the medium term growth opportunities in the UK surgical market, and believing we could increase our market share, we felt justified in strengthening the UK sales force. The financial impact of this commenced in the latter part of the year with increased headcount costs offset this year by both a reduction in variable direct sales costs and other marketing activities. The coming year will see a full year of costs for this enlarged team and an increase in both variable direct sales costs and other marketing activities. We will also consider a modest increase in resource to address emerging markets distributors in ROW where revenue grew by 76%.

The average headcount (excluding non-executive directors) increased from 42 to 44.

Earnings and tax

The Group increased its profit before tax and share-based payment charges by 18% to £326,000 (2013/14: £277,000), its second consecutive year of profits with operating profits, similarly adjusted of £331,000 (2013/14: £295,000).

Depreciation and amortisation for the year of £732,000 (2013/14: £856,000) is effectively reduced by the release of £158,000 (2013/14: £158,000) of deferred income relating to the three year sale and leaseback of monitors, giving adjusted depreciation and amortisation of £574,000 (2013/14: £698,000). Using the adjusted value, EBITDA for the year was £817,000 (2013/14: £933,000). Earnings per share increased by 20% to 0.18p (2013/14: 0.15p).

Although the Group made a profit before tax, it benefits from research and development tax credits of £123,000. The Group has a deferred tax asset of £4.80m, recognition of which will be considered when a sustained trend of profits is more established.

Strategic report
continued

Cash flow, borrowings and cash balances
During the year the Company repaid £175,000 of loans to become free of debt, as well as paying the final installment of £112,000 relating to the buy-back of the US customer base and inventory from LiDCO's former distributor in the US. A high level of sales falling towards the end of the year saw trade debtors increase by £0.70m, impacting year-end cash.

Cash balances at the year-end were £1.51m (2014: £2.37m) and the business remains well-funded. The Company expects to be cash generative in the current financial year.

Property, plant and equipment
There was a net increase in property, plant and equipment in the year of £14,000 with additions of £363,000 offset by depreciation of £349,000. The most significant additions were £261,000 of medical monitors that comprise placed monitors on long term loan to hospitals in the UK and USA for active use where the hospital pays for disposables together with monitors for demonstration purposes and clinical trials.

Intangible assets
Expenditure on intangible assets in the period was £635,000 (2013/14: £723,000) of which £540,000 (2013/14: £621,000) was spent on product development with a further £95,000 (2013/14: £62,000) spent on new product registration, predominantly in respect of Japan and China. We have been busy on the product development front. Expenditure included a number of software developments in both our surgery and intensive care monitors. Three new versions of the LiDCO*rapid*^{v2} Unity software (2.03, 2.04 and 2.05) were concluded. On the critical care side we have invested in a number of projects: simplifying the LiDCO System calibration procedure while updating the LiDCO*plus* software graphical user interface and operating system. In March 2015 we concluded the development of our new portable LiDCO Battery Monitor Stand System ('BMSS'). In parallel with the above projects we have been developing our next generation LiDCO v3 Unity software.

Inventory
Inventory was reduced by £143,000 in the second half of the year, although there was an increase over the whole year of £68,000, due to delivery in the first half of the last batch of forward ordered LiDCO*rapid* monitors referred to previously to mitigate against the effect of end of life notices issued by the manufacturers on some monitor components. Although we expect inventory levels to reduce further in the current financial year, the Group relies on a number of single-source key suppliers and strategically maintains high levels of inventory in respect of such suppliers.

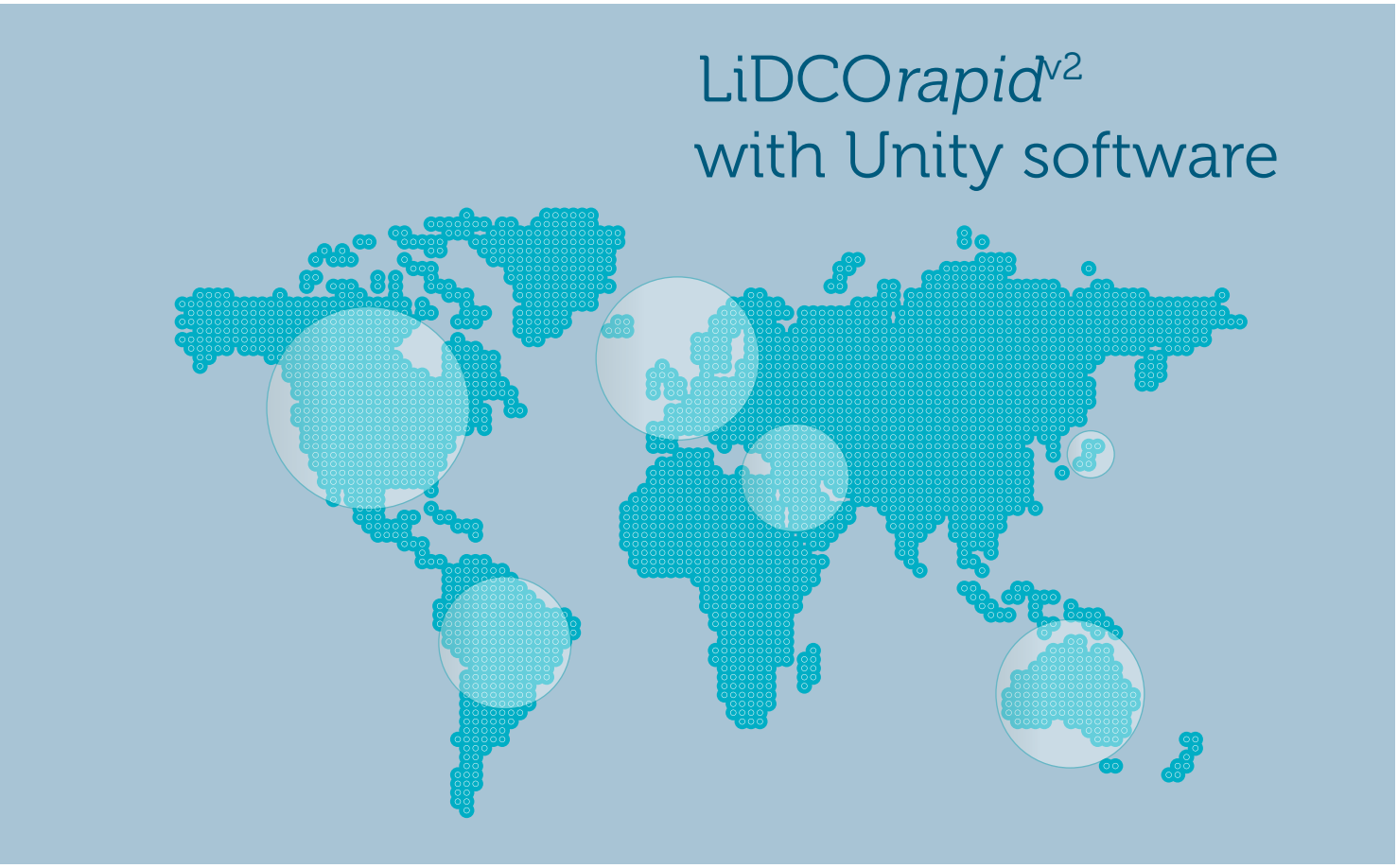
OPERATIONAL REVIEW

During the period a total of 267 monitors (2013/14: 303 monitors) were sold or placed, with total disposable unit sales of 60,661 (2013/14: 60,857). Revenue from sales of monitors was £1.32m (2013/14: £1.43m). Surgical disposables units and revenue were up 10% to 44,758 units (2013/14: 40,660) and £3.39m (2013/14: £3.08m) respectively. Sales of intensive care disposables units fell from 20,197 to 15,903 units with revenue of £1.58m (2013/14: £2.07m). Total disposable revenues (including third party products) continues to represent 80% of total product revenues and their margin contribution represents 87% of total administration costs (2013/14: 90%).

UK
Sales in the UK market (excluding third party products) were £3.95m (2013/14: £4.40m). Including third party Argon products, sales were £5.59m (2013/14: £6.17m). Sales were partly affected by a combination of hospitals moving to holding lower levels of disposable inventories and lower surgery monitor capital sales. Prior year incentives for NHS hospitals to purchase hemodynamic monitors and disposables were not repeated, having the effect of reducing capital monitor sales and restricting disposable revenue growth. Despite these changes in procurement, unit sales of surgical disposables and revenue in the UK both grew: units increasing by 4% to 24,410 (2013/14: 23,570). Restrictions on capital funds resulted in a higher percentage of surgery monitors being placed rather than sold compared to the prior year. Encouragingly, measured against reported reductions in disposable revenue in the UK surgery market, indications are that LiDCO has increased its domestic market share. Sales of intensive care disposables in the UK were lower than the prior period, predominantly reflecting the phasing of a major customer's order. Despite the in period reduction in ICU disposables sales, 34 (mostly replacement) monitors were installed and we feel the UK ICU business is broadly stable while our surgery business is clearly growing.

During the year we concluded a reorganisation of the UK sales operation, putting in place the additional management and information infrastructure necessary to further grow our sales. We currently sell to 42% of UK NHS hospitals with our surgery product and 29% with our ICU product. Our active installed base of surgery monitors is 430 and ICU monitors is 270. We see opportunities to further increase our business by expansion in existing and into new hospital accounts looking to install our multi-parameter platform technology.

International territories
Export sales were up 9% to £2.67m (2013/14: £2.46m), including a significant uplift of 29% in the US and 76% in ROW. Excluding Japan export sales were up 22% to £2.67m (2013/14: £2.20m). Regarding the major markets of the US and Japan, the performance in the US of our sales team was encouraging, in contrast distributor sales to Japan were very disappointing (see commentary in Japan section below). We are seeing an increasing level of sales collectively to existing distributors and interest to represent us from potential new distributors – particularly in the ROW territory. We expect to appoint a number of new distributors in 2015.



US

Following the purchase back from our US distribution partner of the installed base of surgery monitors in late 2012, we have sold directly into US hospitals via a small direct sales force. Over the last year the sales team's focus has been on the growth of disposable sales into our LiDCO*rapid* installed base. This strategy has been successful, and we have achieved a 25% increase in surgery disposable sales, with unit sales up 25% from 5,650 to 7,065. In addition, 37 LiDCO*rapid* monitors were sold or placed into the market during the year. Total US revenues for the year were up 29% to £1.10m (2013/14: £0.86m). US sales continue to be profitable before unallocated central costs.

We feel the US market is at the start of a move into a higher growth phase – particularly with the stimulus for use in major surgery that is coming from the American Society of Anesthesiologists' Perioperative Surgical Home ('PSH') initiative. Furthermore, there are additional substantial opportunities for our technology in the cardiac surgery market, where invasive catheter-based technologies continue to decline. The challenge with the US has moved from one of establishing the market need to one primarily of logistics and the selling costs of addressing this large market from our small, albeit profitable, base business. Appropriately, we continue to explore additional national and regional distribution and licensing arrangements in the US. One existing arrangement is a royalty license granted to ICU Medical, who has an existing invasive catheter-based cardiac output monitoring business. ICU Medical is approaching the end of a major R&D investment to develop a new hemodynamic monitor (Cogent) that incorporates our technology. We expect to start receiving a royalty income from sales of both monitors and disposables by ICU Medical towards the end of 2015, after they launch their new monitor in the US.

Japan

Sales of the LiDCO*rapid* disposable kit (including Argon's blood pressure transducer) are reimbursed in the Japanese market which is the second largest market for hemodynamic monitoring in the world after the USA. Nihon Kohden was appointed in August 2012 as the exclusive distributor for the LiDCO*rapid* monitor and disposable kit in Japan. Nihon Kohden collaborates with LiDCO and its existing partner Argon Medical Devices, to market and sell LiDCO*rapid* products in Japan.

No monitor or disposable sales were made in the period (2013/14: £269,000). Unfortunately revenue comparisons are not yet reflective of end user hospital sales in Japan, at this early stage they are still affected by the requirement to run down prior stocking order inventories. Installations of monitors have been slower than expected, as are disposable usage rates. Japan is a conservative market and our partners in Japan are growing end user sales but slowly as they are addressing a highly embedded competitor. We expect monitor sales to our distributor to recommence soon and disposable sales later in the year.

Strategic report
continued

We believe our technology has superior performance. Despite this performance advantage however, the disruption associated with a change in practice results in resistance to conversion. Importantly, after the year-end we achieved the registration of the LiDCO*rapid*v2 Unity software with non-invasive blood pressure module in Japan. This expands our product offering and further differentiates us from our main competitor's minimally invasive product. We can now offer customers a flexible technology where transitions between minimally invasive and non-invasive monitoring can now be achieved seamlessly. We expect this enhanced functionality will be attractive to customers and provide an enhanced stimulus for conversion to use of our technology.

Continental Europe

In the previous year, 2013/14 we saw a significant increase in revenues from our European distributors. This was encouraging after the cut-backs in healthcare expenditure seen in some European countries in recent years. During 2013/14 total sales increased by 54% to £959,000. Despite the growth seen at the time, we informed shareholders that we remained cautious about sales prospects in continental Europe in our planning for the 2014/15 reporting period. This proved to be wise as revenues modestly declined to £899,000. Surgical disposables were up by 7% on unit volume and 3% on revenue, but this increase was offset by reduced ICU disposables. We sold 50 monitors to distributors of which 37 were LiDCO*rapid* and 13 LiDCO*plus* (mostly replacements). We are seeing some indications that interest in intraoperative fluid monitoring is starting to grow – particularly in northern Europe, and are cautiously optimistic that we will see growth in our surgery business this year.

Rest of World

Sales to the ROW distributors grew strongly again and were up by 76% to £668,000 (2013/14: £379,000). This followed a sales increase of 61% in the prior year. Monitor sales were up to 67 units from 33. Growth was seen predominantly in surgery disposables which were up by 125% to 6,073 units and ICU disposables grew by 7% to 1,355 units. We expect to make further distributor appointments in the emerging markets and expect to see good growth again from these territories in 2015.

Details of the Company's performance, by revenues and unit sales by key geographies, are given in the tables below:

Revenues performance by product and key geographies

	Year to January 2015				Year to January 2014			
	Monitors £'000	**Disposables £'000**	**Other £'000**	**Total £'000**	Monitors £'000	Disposables £'000	Other £'000	Total £'000
LiDCO sales								
UK	**610**	**3,045**	**297**	**3,952**	708	3,435	259	4,402
US	**161**	**929**	**14**	**1,104**	84	766	7	857
Japan	**3**	**–**	**–**	**3**	165	104	–	269
Europe	**290**	**591**	**18**	**899**	309	631	19	959
Rest of World	**259**	**406**	**3**	**668**	167	209	3	379
	1,323	**4,971**	**332**	**6,626**	1,433	5,145	288	6,866
Third party sales								
UK	**–**	**1,641**	**–**	**1,641**	–	1,765	–	1,765
Total sales	**1,323**	**6,612**	**332**	**8,267**	1,433	6,910	288	8,631

The most significant component of the revenue labelled 'Other' above is monitor service contracts in the UK which increased by 21% to £243,000 (2013/14: £196,000).

Unit sales performance by category in key geographies

Unit sales (including placed monitors)	Year to January 2015		Year to January 2014	
	Monitors units	**Disposables units and use**	Monitors units	Disposables units and use
Surgery products				
UK	**73**	**24,410**	120	23,570
US	**37**	**7,065**	23	5,650
Japan	**–**	**–**	55	2,000
Europe	**37**	**7,210**	38	6,745
Rest of World	**63**	**6,073**	32	2,695
Surgery total	**210**	**44,758**	268	40,660
ICU products				
All territories	**57**	**15,903**	35	20,197
Total	**267**	**60,661**	303	60,857

Global markets

We estimate the global revenue opportunity for minimally invasive and non-invasive hemodynamic monitoring disposables to be potentially about US$2 billion per annum and estimate current revenues at about US$300m. The priority countries for LiDCO are the UK, US and Japan with the latter two being the world's first and second largest markets by size (estimated at US$650m and US$480m respectively) representing a total of around 5 million high risk surgery patients per annum.

New products

After the year end we achieved registration of LiDCO*rapid*^{V2} with Unity software and non-invasive blood pressure monitoring in Japan. This followed registration and launch in the EU and USA the previous year. This product provides customers with two additional non-invasive monitoring options – continuous arterial blood pressure and depth of anesthesia. LiDCO's technology now addresses a far bigger market. The multimodal nature of the LiDCO*rapid*^{V2} further distinguishes the Company's products from the competition, allowing the customer choice regarding the degree of invasiveness while adding the option of continuous brain function monitoring. Patients can now benefit from continuous blood pressure and hemodynamic monitoring at any stage of their treatment and in all of the hospital locations where such care is required. We estimate this non-invasive capability has doubled the potential size of the market opportunity for sale of our products, now projected to be capable of growing to US$2 billion per annum in disposables sales.

Over the year we upgraded the Unity software several times (now at version 2.05) to add additional features and functionality. All LiDCO monitors are now compatible with the latest release of the Philips IntelliBridge patient data interface. IntelliBridge connects to LiDCO devices via a specific Philips IntelliBridge module and cable. In May 2014 we announced that US based NantHealth, a leading provider of healthcare information technology solutions, had successfully completed development of a proprietary communications link between LiDCO monitors and its own DeviceConX (formerly iSirona) system. In combination, these new features make the LiDCO*rapid*^{V2} system even easier to use and importantly integrates the data into the hospital's patient information system. With technology use rising in hospitals, it becomes increasingly important for different systems and equipment to communicate with each other in order to help make informed decisions about patient care.

Earlier in the month we exhibited our recently CE marked new battery powered monitor stand at the ISICEM meeting in Brussels. The availability of a battery powered (up to 6 hours) stand allows the LiDCO*rapid*^{V2} to be mobile so it can now be used in the monitoring of patients' hemodynamic and fluid status in transit between different hospital locations.

For some time our development focus has been on the major surgery market opportunities, however we continue to see good prospects for growth of sales in the high dependency and critical care markets. Accordingly across the year we have invested in a number of new projects that are aimed at simplifying the LiDCO System (lithium dilution) calibration procedure software, while updating our critical care LiDCO*plus* software graphical user interface and operating system. Our ambition is to make these improvements available to customers in the second half of this year.

Finally, in parallel with the above projects we have been developing our next generation LiDCO v3 Unity software. This is a substantial development with the aim of creating an even more flexible monitor that will have additional features and over time integrate further parameters that we believe will more comprehensively address our customers' requirements for acute care of the high-risk patient. We expect to launch our first LiDCO v3 Unity product later this year and will keep investors informed with progress as we near the project's completion.

Patents

Underpinning our technology and revenue streams is a strong patent position. Patent cover provides us with a more protectable product and market position. Wherever possible we take the initiative in developing and protecting our advances in physiological signal processing and intelligent graphical user interfaces. We are pleased to report the grant in the UK of our combined hemodynamic and depth of anaesthesia patent and that the Japanese authorities have approved our improved method for deriving cardiac output from the arterial pressure waveform.

Clinical evidence and support

For medical technologies to be introduced into mainstream practice, their use has to be increasingly shown to be both clinically and cost effective.

We announced the findings from a number of important clinical papers during the year.

1. The publication of a cost-effectiveness analysis from clinicians at St George's Hospital, London. These doctors have been delivering goal-directed therapy (GDT), using the LiDCO*plus* monitor, for high-risk surgery patients in the postoperative period for the last 9 years. In the short term, GDT decreased costs by £2,631 per patient and by £2,134 per hospital survivor. In the long term, GDT was projected to prolong quality-adjusted life expectancy by 9.8 months and to bring incremental cost savings of £1,285 per patient. The cost-effectiveness analysis concluded that the implementation of GDT is both clinically sound and cost-effective, commenting that additional monitoring expense can be offset after less than two months when 100 patients per year receive GDT through savings, due to reduced costs accrued from a reduction in complication rates and hospital length of stay. Reference: Ebm C, Cecconi M, Sutton L, Rhodes A (2014) A Cost-Effectiveness Analysis of Postoperative Goal-Directed Therapy for High-Risk Surgical Patients DOI: 10.1097/CCM0000000000000164

2. Publication in Anesthesia & Analgesia of a paper from the Enhanced Recovery Study Group at Duke University of North Carolina, titled 'Reduced Length of Hospital Stay in Colorectal Surgery after Implementation of an Enhanced Recovery Protocol' (ERAS). The study concludes that implementation of an Enhanced Recovery After Surgery ('ERAS') programme for colorectal surgery was associated with a significantly reduced length of stay ('LOS') and incidence of urinary tract infection. Three key outcomes in the study were length of stay post-operatively, the incidence of post-operative urinary tract infections and the readmission rates. The median LOS was 5 days in the ERAS group compared with 7 days in the traditional group ($P < 0.001$). ERAS patients had fewer urinary tract infections (13% vs 24%, $P = 0.03$) and the 30 day

Strategic report
continued

readmission rates were lower in ERAS patients (9.8% vs 20.2%, P = 0.02). Reference: Anesthesia Analgesia 2014; 118:1052–61

3. Results of the OPTIMISE study, a multi-centre trial in the UK aimed at improving surgical outcomes by optimising cardiovascular management, have been published in the Journal of the American Medical Association, concluding that when included in a meta-analysis, the intervention was associated with a clinically important 24% reduction in complication rates and a shorter length of stay. OPTIMISE was a multi-centre, randomised controlled trial conducted in 17 acute NHS hospitals to evaluate the clinical effectiveness of a peri-operative hemodynamic therapy algorithm on high-risk patients undergoing major gastrointestinal surgery. The primary outcome score, a combined 30-day complications and mortality rate, was improved in the intervention group, compared to controls, but fell slightly short of statistical significance (p=0.07). The authors commented that a number of factors 'reduced the power of the trial, perhaps resulting in a failure to achieve statistical significance for the primary outcome.' Importantly, further analysis of the data led the authors to state that: '*inclusion in an updated meta-analysis indicates that the intervention was associated with a clinically important reduction in complication rates.*'

4. Prospective observational trial covering a total of 264 cardiac surgery patients. The study showed that the use of LiDCO*plus* significantly reduced the incidence of acute kidney injury (AKI), reduced the subsequent need for renal replacement therapy, and reduced the length of hospital stay. The incidence of AKI was significantly reduced in the GDT group with a total of 8 patients (6.5%) exhibiting AKI compared to 28 (19.9%) in the standard of care group. The median duration of hospital stay was 6 days in the GDT group compared to 7 days for patients receiving standard of care. NICE (National Institute for Health and Care Excellence) has estimated that the costs to the NHS of AKI (excluding costs in the community) are between £434m and £620m per year, which is more than the costs associated with breast cancer, or lung and skin cancer combined. The study clearly shows that avoidance of kidney compromise through using the LiDCO's fluid monitoring technology overseen by the ICU nursing team can reduce the incidence of post-operative AKI by 70%. This represents a significant saving to the NHS and improves patient outcomes. Reference: Thomson Rebekah, Meeran Hanif, Valencia Oswaldo, Al-Subaie Nawaf, Goal-Directed therapy following cardiac surgery and the incidence of acute kidney injury, Journal of Critical Care (2014), doi: 10.1016/j.jcrc.2014.06.011

5. A study concluding that the implementation of an evidence-based care bundle for patients undergoing emergency laparotomy was associated with a significant reduction in the risk of death following the surgery. The emergency laparotomy pathway quality improvement care (ELPQuiC) bundle included goal-directed fluid therapy provided throughout the study using the LiDCO*rapid* cardiac output monitor both during surgery and for 6 hours while the patient was cared for in the intensive care unit. The study, which was conducted in four NHS hospitals, showed that the number of lives saved per 100 patients treated rose from 6.47 to 12.44 and the overall adjusted risk of 30-day mortality significantly decreased from 15.6% to 9.6%. The study's authors concluded that 5.97 more lives were saved per 100 patients treated overall compared with outcomes before implementation of the ELPQuiC bundle. The study also noted that '*significant changes in both the use of goal-directed fluid therapy and admission to ICU were found across almost all of the participating sites. These two elements of the bundle may have the greatest impact in reducing mortality in other hospitals and healthcare systems where these standards of care are not met routinely.*' Large numbers of patients undergo high-risk emergency general surgery. This makes this patient population a compelling target for quality improvement in their care. The potential gains for saving lives are far greater than many other areas of hospital care. Reference: British Journal of Surgery 2014; 10.1002/bjs.9658

6. A research group in Australia evaluated the performance of minimally invasive cardiac output monitors to detect blood loss in volunteers subjected to blood removal of 2.5% blood volume aliquots to a total of 20% blood volume removed. The devices tested were LiDCO's LiDCO*rapid*, Edwards' Vigileo FloTrac™, and the USCOM and Deltex CardioQ™ Doppler based devices. A statistically significant difference from baseline stroke volume (a measure of the circulation ability to fill the heart effectively) was detected quickest by the LiDCO device after only 2.5% blood loss compared to the other devices where blood loss was detected less quickly. It is not possible to detect blood loss early enough using the traditional monitoring parameter of blood pressure. The precision to detect small changes in blood volume status is valuable in many clinical settings. Earliest detection must be the goal. Through this excellent comparative study, LiDCO monitors have been shown to be the quickest at detecting blood loss. This performance gives our customers the best chance of avoiding excessive blood loss and guiding fluid replacement. Reference: Evaluation of the utility of the Vigileo FloTrac™, LiDCO™, USCOM and CardioQ™ to detect hypovolaemia in conscious volunteers: a proof of concept study. Reference: Anaesthesia 2015, 70, 142–149.

Outlook

LiDCO has now reported two consecutive years of profitable trading. We are now free of debt, well-funded and expect to be cash generative in the current financial year. We have a strong market position in the UK coupled with a growing surgery disposable business in both the domestic UK and export markets.

It is important to remember that the hemodynamic monitoring market required reinventing and revitalising over the last decade or so. When we started promoting our technology back in 2001 the traditional and invasive pulmonary artery catheter market had been declining for a number of years due to concerns regarding its invasiveness and lack of convincing clinical outcome data. The next generation of less invasive technologies had a considerable challenge to establish that their use was safe and clinically effective in reducing complications and length of stay.

LiDCO's technology has been shown to be both safe and effective. LiDCO products can now be used for the monitoring of fluids and drugs completely non-invasively without the requirement for any catheter insertion at all as well as being minimally invasive. The hemodynamic monitoring market is now growing in some of the major markets outside the UK. We can now expect more systematic use and higher sales volumes. Our main challenge going forward is not one of validation for our technology, but rather execution and ensuring that we have the resources to expand our product sales into the many countries where adoption of advanced hemodynamic

monitoring is now occurring. Encouragingly we are increasingly attracting quality distributors with the desire and resources necessary to participate in this market.

We expect 2015 to be our third successive year of profits. We are well resourced and organised for further growth in the UK and expect export sales to advance again as we improve our access through additional distribution arrangements.

This will, as previously announced, be my last set of final results as Chief Executive. We are well progressed in finding a suitable replacement who will be focused on executing on the substantial opportunity available to LiDCO. I will be handing over a solid and profitable platform which I believe can deliver both significant growth and value to shareholders.

How we create value: our business model

LiDCO is a UK-based manufacturer and supplier of monitoring equipment and associated single patient use disposables to hospitals. LiDCO monitors are 'platform' in design. This means they can be easily and cost-effectively upgraded to add new software features and parameters by the addition of USB-connected modules. Our technology, coupled with our low cost manufacturing and product sourcing skills, combine to produce a highly differentiated, patent-protected monitor with a recurring income stream from the sale of high margin single patient use disposables.

Our monitors continuously display a number of crucial physiological parameters including arterial blood pressure, the effects of anesthesia on the level of consciousness of the brain, the requirement for intravenous fluids and the amount of blood and oxygen supplied to the body's tissues and organs. We provide this crucial data via an easy-to-interpret monitor user interface which helps clinicians and nurses ensure vital organs are adequately perfused and that patients are not over-anesthetised or sedated.

Historically, hemodynamic monitoring was invasive in nature, requiring the insertion of invasive central catheters. For this reason, it was only available to a restricted number of the high-risk patients that could potentially benefit. LiDCO's technology does not require the insertion of central catheters and now can be used completely non-invasively and in both ventilated and non-ventilated patients.

Our customers are acute care physicians and nurses working in major hospitals caring for emergency and high-risk patients. Hospitals are migrating away from invasive technologies towards the use of less invasive monitoring, which has been shown to be cost effective and improve outcomes. Use of LiDCO monitors in high-risk patients in both intensive care and surgical settings has been shown to reduce mortality, complications, length of hospital stay and improve quality of life.

The key features of our business model:

- We have developed a new generation of hemodynamic monitoring products designed to address a developing disposable market opportunity - estimated to be potentially $2 billion per annum.
- Our disposable products are produced in high volume with low cost manufacturing processes and have a high margin.
- Sales of our products are supported with a growing body of evidence to satisfy purchaser requirements for clinical and cost effectiveness data.

10%

increase in global surgical disposables

- We generate revenues principally through the sale or licensing of the sale of single-use disposables into a growing installed base of LiDCO-enabled monitors.
- We protect our disposable income stream through having patented products with high levels of proprietary intellectual property and are subject to on-going development.
- We provide first-class training and education to our customers. This helps entrench our technology and reduce hospitals costs, thereby providing LiDCO with a sustainable recurring income.

Delivering our objectives: our strategy

Our strategy is to build shareholder value through the commercialisation of LiDCO monitoring systems and associated disposables. Product design, manufacturing and sales and marketing excellence are at the core of our values. Our products are patent-protected and supported by a growing body of data showing their clinical and cost-effectiveness. Our technology is not only usable in traditional locations such as the intensive care and surgery departments, but also in any area of the hospital where high-risk patients require such monitoring. Hospitals acquiring our compelling hemodynamic platform monitors can transition from traditional invasive catheter-based monitoring to higher volume use of LiDCO's minimally or non-invasive monitoring in high-risk patients reducing complications and lowering costs and length of stay.

It is our strategy to derive revenue growth predominantly from increasing use of our technology and high margin disposables into a growing installed base of LiDCO-enabled monitors. This will be achieved by adding further functionality to the monitor, the development of USB-enabled modules and by increasing the size of the worldwide monitor installed base.

Having multiple sale and distribution options is key to LiDCO's capacity to address the worldwide opportunity for sales of our technology. Our sales and distribution model has three elements. Firstly, we have direct sales into hospitals in the UK and USA. Elsewhere we sell via distribution partners. Our depth of margin on disposable sales allows us to attract quality specialist distribution partners on an exclusive and non-exclusive basis. Our direct sales experience in the UK and USA has allowed us to develop a distribution business and sales model which effectively forms a distributor 'franchise'. Our core technologies are patented and have been licensed in part on a non-exclusive basis to a major corporate partner in the US in return for future royalty payments. We continued to explore further arrangements to access the US market.

Strategic report
continued

Key performance indicators

	Year to January 2015	Year to January 2014
Revenue growth of LiDCO surgery products	**(2%)**	34%
Revenue growth of LiDCO ICU products	**(6%)**	13%
LiDCO product revenue per FTE employee	**£152,000**	£162,000
Monitors sold/placed in the year	**267**	303
Unit sales/use of surgery disposables	**44,758**	40,660
Average unit disposable sales per surgery monitor (UK)	**4.9 per month**	5.7 per month
Gross profit margin on LiDCO products	**82%**	81%
Disposable margin as % of overheads	**87%**	90%

Measuring our performance: KPIs

The KPIs (see table above) are some of the indicators used by management to measure performance during the year:

Business objectives

Our financial objectives are to continue to profitably grow the business with cash generation. Revenue growth is expected to derive principally from increased sales of our surgical disposables. We expect growth of surgical disposable sales in both of our direct markets of the UK and USA and also in the distribution territories. Clearly, a factor central to growth will be how we maximise the impact of the LiDCO*rapid*^{v2} both in the existing surgical monitor installed base and in acquiring new hospital accounts. Work is already under way to expand use into new hospital areas, for example obstetric, emergency medical and non-elective surgical patients. These are exciting, high volume new applications where our technology is capable of improving outcomes and reducing costs.

Our corporate collaborations are an important element of our business. There are a number of these in place, ranging from OEM module licensing-in (Covidien and CNSystems), distribution provisions (Nihon Kohden and Argon) through to royalty-based licensing-out arrangements (ICU Medical).

During the year ahead we will be further developing the marketing and educational support materials for use of our product in the peri-operative arena.

Overseas, we are targeting opening new distributor accounts in a number of fast-growing emerging markets. Following approval of the LiDCO*rapid*^{v2} for sale in the USA, Europe and now Japan, we are pursuing the registration of the new software and non-invasive blood pressure and brain monitoring modules in China.

Further development work will continue to focus on optimising the LiDCO*rapid*^{v2} to maintain our initiative in non-invasive multi modal monitoring by further refining our products. After our financial year end we launched the new version of LiDCO*rapid*^{v2} Unity software – version 2.05. This was launched in March 2015 at the 35th ISICEM Meeting in Brussels. This new version of the Unity software added further functionality.

Over the longer term we expect to enhance our products by integrating additional flexibility and parameters into the LiDCO*rapid* monitor platform. We are assessing a number of promising opportunities which would benefit from our expertise in integrating parameters via USB modules and the associated product registrations. Our agile software development allows us to fast track the integration of new parameters. We look to add parameters that make sense from a physiological monitoring point of view to complement our existing displays. Our product strategy is to continue to grow sales by growing the significance of the LiDCO monitor in terms of more comprehensive monitoring of the acute care patient pathway.

Glossary of terms

ASA – American Society of Anesthesiology
IOFM – Intra Operative Fluid Management
NHS – National Health Service (UK)
ERAS – Enhanced Recovery After Surgery
Meta-analysis – A systematic review of clinical trials with a meta-analysis is often considered the most objective of all types of reviews. A meta-analysis provides a quantitative analysis and estimation of the effectiveness of an intervention. In this meta-analysis the intervention was the protocolized and hemodynamically monitored use of a drug and/or fluid to increase blood flow in surgery patients.
AKI – Acute kidney injury
NICE – UK's National Institute for Health and Care Excellence

PRINCIPAL RISKS

The Group maintains a comprehensive risk register and risk management is an important part of the management process. Regular reviews are undertaken to assess the nature and magnitude of risks and the means by which they may be mitigated.

The directors consider the key commercial risks currently associated with the business are:

Employees and performance

The Group relies on a small number of senior management with a wide range of relevant skills and specialist sector knowledge. The Group employs about 50 people and recognises that its success depends on the calibre of all its employees and ensuring that their productivity is maximised. The Group therefore maintains programmes for recruiting, appraising, incentivising and training employees. The risk of underperformance is mitigated by adopting systems and processes to develop realistic plans and budgets and then closely monitoring performance against those plans. Such systems and processes provide a level of resilience.

Intellectual property

The Group has generated a valuable portfolio of proprietary intellectual property and its success and value depend to a significant extent on this. The Company mitigates the risk of a weakening of its intellectual property position through securing and maintaining patents for its products, maintaining confidentiality agreements regarding its know-how and regularly reviewing where opportunities might exist to file new patent applications.

Supply chain management

The manufacture of the Group's products relies on the supply of components from third parties; therefore the failure of suppliers or subcontractors to continue in business or meet their commitments constitutes a risk to continuity of supply. This is mitigated by maintaining good relationships with key suppliers in order to understand their capabilities and maintaining contracts and technical agreements as appropriate. Where possible, but with regard to cost, each type of component is obtained from multiple sources. The amount of critical components and materials held in stock is determined according to risk-based lead times which are regularly reviewed. Particular attention is paid to component availability where new products are introduced and the scale of demand is uncertain.

Distributors

The Group relies on distributors for its sales and marketing activities outside the UK and US. The Company mitigates the risk of distributor underperformance by selecting distributors with the requisite resources, skills, access to customers and creditworthiness. In addition, the Group provides ongoing training programmes and support and closely monitors distributor activity.

Liquidity

The key financial risk is the management and maintenance of sufficient cash balances to support the ongoing development, supply and marketing of the LiDCO products. The Group mitigates this risk by the use of shareholders' funds, overdrafts and finance facilities. In addition the Group seeks to maintain a high level of disposable income which reduces its reliance on the sale of capital equipment to its customers.

Health service budgets

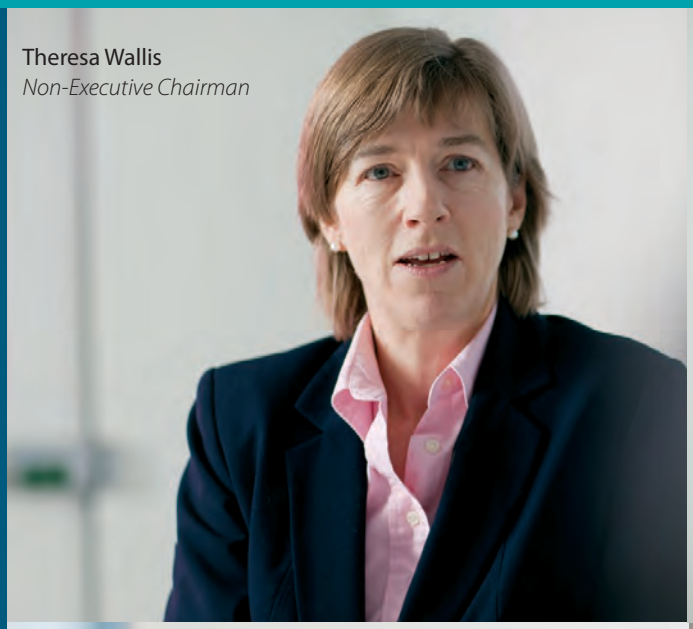
The Group's performance is affected by hospitals' expenditure and any, or developing, budgetary constraints. The Group mitigates this risk by targeting a wide geographical area for its products where the Group has committed and effective distribution partners and by targeting sales opportunities where budgets are likely to be available.

Product use

As noted above the Group relies on a high level of disposable income. The Group therefore seeks to ensure that customers are familiar with the use of the Group's products, their current benefits, potential enhancements arising from the ongoing product development activities and are properly trained in their use.

Terry O'Brien
Chief Executive Officer
30 March 2015

Board of Directors



Theresa Wallis
Non-Executive Chairman

Dr Terry O'Brien
Chief Executive Officer

Ian Brown
Non-Executive Director

Paul Clifford
Finance Director

Theresa Wallis
Non-Executive Chairman
Ms Wallis was appointed in December 2002. She has worked most of her career in financial services, moving into the technology commercialisation sector in 2001. She worked for the London Stock Exchange for 13 years, where from 1995 she was chief operating officer of AIM, the market for smaller growing companies, having managed the market's development and launch in 1994/5. From 2001 to end 2006 she was a principal executive of ANGLE plc, a venture management and consulting business focusing on the commercialisation of technology. Since 2001 she has held a number of non-executive directorships and she is currently a non-executive director of Special Products Limited and the Quoted Companies Alliance.

Ian G. Brown
Non-Executive Director
Mr Brown was appointed in October 2005. He has over 25 years' experience in the medical devices industry and has extensive experience of developing and introducing new medical devices to the market in the UK and overseas. Between 1986 and 2003, he was an executive director and shareholder in a medical device start-up company (Novamedix Group), initially as sales and marketing director and later as managing director. The company was progressively sold to a major US healthcare group (Ofix). In his early career, Mr Brown worked in a number of UK and international sales and marketing positions for Johnson & Johnson, Smiths Industries and Pharmacia AB.

Dr Terry O'Brien
Chief Executive Officer
Dr O'Brien co-founded the Group in 1991 and has led the Group since its inception. Prior to that, he held senior positions with biomedical companies including Sandoz SA, Pharmacia AB, Meadox Medical Inc, Novamedix Ltd, Enzymatix Ltd and Surgicraft Ltd. Dr O'Brien was associate commercial director at Enzymatix, which subsequently listed on the London Stock Exchange as ChiroScience Plc and Celsis Plc. Over the last 35 years Dr O'Brien has been involved in the research and development and subsequent marketing of a number of medical device technologies that are now standards of care in the anesthesia, critical care and surgery markets.

Paul Clifford
Finance Director
Mr Clifford was appointed in April 2008. He qualified as a chartered accountant with Touche Ross (now Deloitte) in 1975. He joined the Group in April 2008 having spent 28 years in finance positions in technology companies. In 1991 he co-founded BCS Computing Limited, a venture capital backed concern investing in computer software companies. He became finance director of software group, Comino in 1996, prior to its flotation on AIM in 1997. In 2006, Comino was acquired by AIM quoted Civica plc and Mr Clifford became finance director of Civica UK Limited, its main operating subsidiary, leaving in 2008. Mr Clifford was a non-executive director of AIM-quoted Prologic plc until its takeover in 2012.

Clinical Advisory Group

Dr Max Jonas
Dr Jonas is a Consultant Intensivist and Senior Lecturer in critical care working at Southampton University Hospitals. He is currently the Director of the 28 bed general intensive care unit and has specific interests in hemodynamics and the assessment of monitoring equipment. He is an elected member of the Council of the Intensive Care Society and has completed a six year term of the technology assessment section of the European Society of Intensive Care Medicine. He is the ex-president of the Society of Critical Care Technologists.

Professor Michael Pinsky
Professor Pinsky is Professor of Critical Care Medicine, Bioengineering, Cardiovascular Diseases, Clinical and Translational Research and Anesthesiology at the University of Pittsburgh School of Medicine, USA and is a member of the editorial board of the Journal of Critical Care and Critical Care Forum. He is editor-in-chief of the eMedicine WebMD's textbook Critical Care Medicine. He was awarded Docteur honoris causa (Dr hc) from the Université de Paris V (La Sorbonne) and Master of Critical Care Medicine (MCCM) from the Society for Critical Care Medicine. He has a wide range of research interests – among them being the study of heart-lung interactions, hemodynamic monitoring, cardiovascular physiology, sepsis and outcomes research. He is a world leading authority on the application of both existing invasive, and the more recent introduced minimally invasive, monitoring technologies.

Dr Christopher Wolff
Dr Wolff holds the post of senior research fellow at The Centre for Clinical Pharmacology, The William Harvey Research Institute, Bart's and Queen Mary School of Medicine and Dentistry, London. He is a clinician, physiologist and mathematician and has major research interests in respiratory and cardiovascular physiology.

Dr David Band
Dr Band was appointed to the Clinical Advisory Group in April 2011. He co-founded LiDCO in 1991, is the co-inventor of the LiDCO system and until April 2011 was the Group's Scientific Director. He is a specialist in the field of respiratory physiology, electrochemistry and ion-selective electrodes. He has a degree in medicine and was a reader in applied physiology in the Division of Physiology, GKT School of Biomedical Sciences, St Thomas' campus.

Corporate Governance report

The UK Corporate Governance Code
Companies that have shares traded on AIM, the London Stock Exchange's market for smaller growing companies, are not required to comply with the UK Corporate Governance Code ('the Code'). Whilst the Group does not adhere to the Code, the Board is committed to maintaining high standards of corporate governance, and draws on best practice including those aspects of the Code it considers to be appropriate and practicable for a company of this size.

LiDCO is a small company that has achieved its second consecutive year's operating profit. In line with a focus on cost-effectiveness across the Group, the corporate governance processes in place balance the need to ensure that the Board carries out its responsibilities effectively with the need to do so cost-effectively.

The Board of Directors
The Board currently consists of two executive and two non-executive directors. Biographies of the directors are provided on page 17. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer and their roles have been set out in writing and agreed by the Board.

The non-executive directors are Theresa Wallis (Chairman) and Ian Brown (Senior Independent Director). The non-executive directors bring a wide range of skills and experience to the Board. The Board considers that the non-executive directors are independent, despite the fact that the terms of both non-executive directors now exceed nine years and therefore do not meet the independence criterion regarding length of service specified in section B 1.1 of the UK Corporate Governance Code, although they meet the other independence criteria. Nevertheless following consideration the rest of the Board believes that each remains both independent in character and judgement and continues to be effective and demonstrate commitment to their roles.

The Board supports the view that refreshing the non-executive director representation on the board may be beneficial. However, with the Chief Executive Officer having given notice in September 2014 to retire in September 2015, the board, having consulted the Company's nominated advisor believes it would have been too disruptive to change the non-executive director representation on the board during that period. Looking ahead, once the new CEO has been appointed, a search will be conducted to refresh the non-executive director representation on the board.

In February 2015, the Board carried out an evaluation of the performance of the Board and its Committees. This involved each director reviewing information and completing an evaluation questionnaire, the results of which were collated and discussed by the Board and recommendations were agreed. It is the Board's intention to continue to review annually its performance and that of its Committees.

Board processes
There is a list of the types of decisions reserved for the Board, which is reviewed annually by the Board. In addition, an agenda plan is prepared with the aim of ensuring that the Board considers all the matters that it should, whilst allowing for the unexpected. The agenda plan is reviewed regularly.

The Group normally conducts about eight Regular Board Meetings a year. In addition the Board meets to approve financial statements, the allotment of shares and to approve significant commercial agreements. The attendance of the individual directors at the Regular Board Meetings and the Audit and Remuneration Committee Meetings were as follows:

Attendance record at Board Meetings and Committees

Name	Position	Regular Board Meetings	Audit Committee	Remuneration Committee
Ms T A Wallis	Non-executive Chairman	8 (8)	2 (2)	3 (3)
Dr T K O'Brien	Chief Executive Officer	8 (8)	n/a	n/a
Mr P L Clifford	Finance Director	8 (8)	n/a	n/a
Mr I G Brown	Non-executive Director	8 (8)	2 (2)	3 (3)

Numbers in brackets denote the total number of meetings during the year. The Nomination Committee did not meet during the year as the replacement for the Chief Executive Officer further to his decision to retire in September 2015 was considered by the Board as a whole.

All the directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board as a whole. All directors are able to take independent advice in the furtherance of their duties, if necessary, at the Company's expense.

Under the Company's Articles of Association, all new directors are required to resign and seek re-election at the first Annual General Meeting following their appointment. All directors are required to seek re-election at intervals of no more than three years.

Committees of the Board
The terms of reference of the committees are set out in full on the Company's website, but a summary of the membership and work of each committee is set out below:

Audit Committee
The members of the Committee are Ms Wallis (Chairman) and Mr Brown. The executive directors and the external auditors attend the meetings by invitation. The Committee considers financial reporting and internal controls. It also reviews the scope and results of the external audit and the independence and objectivity of the auditors. It meets at least twice a year and reviews the interim and annual financial statements before they are submitted for approval by the Board. The Committee met twice during the year. The Committee considers annually whether the auditors remain independent for the purposes of the audit. This year the fee for non-audit work is £11,000 against an audit fee of £48,000. The Committee is satisfied that the auditors remain independent for the purposes of the annual audit. The Committee considers that given the size of the Group and its current stage of development a separate internal audit function is not required, but the matter is reconsidered annually by the Committee.

Remuneration Committee
The members of the Committee are Ms Wallis (Chairman) and Mr Brown. The Committee reviews and sets the remuneration of the executive directors and considers any bonuses to be awarded to them. The Committee advises on share schemes and approves the granting of share options. The Committee met three times during the year.

Nomination Committee
The members of the Committee are Ms Wallis (Chairman), Mr Brown and Dr O'Brien. The Committee recommends to the Board, at the request of the Board, candidates for new appointments to the Board and advises on all matters relating to Board appointments. The Committee did not meet during the year.

Relations with shareholders
The Company seeks to maintain and enhance good relations with its shareholders. The Company's interim and annual reports are supplemented by public announcements to the market on technological, commercial and financial progress. All investors have access to up-to-date information on the Company via its website, www.lidco.com, which also provides contact details for investor relations enquiries. All shareholders are invited to make use of the Group's Annual General Meeting to raise any questions regarding the management or performance of the Company.

The Chief Executive Officer and the Finance Director meet regularly with shareholders and the investing community and report to the Board feedback from those meetings. In addition the Group's stockbrokers provide independent feedback to the Board on shareholders' views. Both non-executive directors have the opportunity to attend shareholder meetings. The Board is kept informed on market views about the Group.

Corporate Social Responsibility statement

The Company recognises the importance of Corporate Social Responsibility.

At the core of LiDCO are its medical products for hemodynamic monitoring which have been developed over a number of years and continue to be developed. The original objective of the design of these products was to translate specialist physiological parameters and principles into useable information and tangible protocols to improve clinical outcomes. The Company has been successful in achieving this objective and its products, which are used in hospitals in many parts of the world and help surgeons to improve the outcome of clinical operations for the benefit of the patient both during and after surgery and help hospitals to reduce their costs.

LiDCO works with its employees, customers and suppliers to conduct its business in an ethical way. The Company is of a relatively small size but growing and thus the Company's commitment to Corporate Social Responsibility is dynamic and is reviewed when considered appropriate.

Employees
The Company recognises that an essential part of its continued success is the support and involvement of its employees.

- Effective communication is essential to ensure its employees are fully engaged with the business. The senior management team meets regularly throughout the year as a forum to discuss business progress and interdepartmental issues and line managers update employees on Company progress and objectives.
- Employees have annual appraisals to set objectives, identify strengths and areas for development.
- Training is provided where necessary to enhance job performance and aid development.
- The Company has a share option scheme with a high level of employee participation.
- The Company regularly reviews the benefits offered to employees.

Environment
Whilst not of substantial impact compared with many other manufacturing industries, nevertheless the Company recognises its activities have an impact on the environment and acknowledges its responsibility to ensure this is minimised.

- In accordance with the requirements of the Waste Electrical and Electronic Equipment Regulations (WEEE), the Company is registered with the UK Environment Agency as a Small EEE Producer, and disposes of electrical equipment waste responsibly.
- Where possible, other products are recycled within the Company.
- Paper, cardboard, batteries and ink cartridge recycling collection facilities are in place in the Company's offices.
- Redundant computer equipment is offered to employees or disposed of in accordance with good practice.
- Company vehicles are run on diesel fuel for fuel efficiency.
- The Company continually reviews the substances it uses in its manufacturing processes with the aim of using the least toxic and most environmentally friendly products commensurate with producing high quality products.

Ethics and values
- The Company designs and manufactures products that help clinicians to improve the outcome of clinical operations for the benefit of patients both during and after surgery and help hospitals to reduce their costs.
- The Company aims for all employees to have job satisfaction, a safe and secure working environment, the feeling that their achievements are recognised and an opportunity to develop their full potential.
- The Company recognises customer needs for a high level of customer service and quality of its products, at the right price.

Health and safety
- As a producer of medical products the Company operates in a highly regulated environment and is subject to regular inspection and audit.
- The Company uses an external specialist to advise on its health and safety policy and practice. Stringent procedures are in place in areas of the Company where risks are apparent, and the Company provides a physically safe working environment and appropriate training, protective clothing and equipment to all employees who undertake their duties.
- All company car drivers are provided with a full driving risk assessment and training upon joining, and a further paper-based risk assessment is completed every three years.
- Health and safety matters are regularly reviewed at Board Meetings.

Shareholders
The Company aims to treat its shareholders in a responsible manner. It maintains regular contact with its major shareholders to explain developments in the business and all shareholders are invited to question management at the Annual General Meeting. See also 'Relations with Shareholders' in the Corporate Governance Report on page 19.

Directors' remuneration report

Dear Shareholder
The remuneration of our Executive Directors and senior management is intended to motivate, retain and when necessary attract executives of the right calibre.

Remuneration levels are set in order to ensure the future success of the business and to deliver shareholder value. This is achieved by a combination of base salary, bonuses and share options, which are offered to executive directors and employees at all levels.

In respect of year 2014/15, the main decisions the Committee made were:

Bonus
The bonuses for the year were 7% of salary respectively for T K O'Brien and P Clifford, which was below the maximum bonus opportunity of 60% of salary.

Options
No share options were granted to directors during the year. The awards made in April 2011, with an exercise price of 15 pence vested on 18 April 2014, when the share price was 23.23 pence.

In respect of future remuneration policy, the main decisions the Committee made were:

Salaries
Executive Directors' salaries are normally reviewed with effect from 1 February each year. As a result of the review undertaken in February 2015 there were no increases in the executive directors' salaries in common with the majority of other employees in the Group. The salaries remain as follows:

Name	Salary	% increase
T K O'Brien	£206,534	nil
P L Clifford	£142,429	nil

P L Clifford normally works four days per week and works additional days if required.

Bonus
The executive directors' maximum bonus opportunity for 2015/16 remains unaltered and is 60% of base salary received in the year and the award for on-target performance is 30%.

As previously announced, T K O'Brien the Chief Executive Officer will be retiring in September 2015. The Group is currently in the process of recruiting a new CEO and their remuneration package will be agreed as part of the recruitment process.

We will be seeking approval to this report at our Annual General Meeting on 13 May 2015.

If any shareholder wishes to contact me in relation to the Group's director and senior executive remuneration arrangements they can do so at the Group's head office address.

Theresa Wallis
Chairman of the Remuneration Committee
30 March 2015

Directors' remuneration report
continued

The directors present below their Remuneration report which covers the remuneration of both the executive and non-executive directors. The report will be subject to a shareholder vote at the forthcoming Annual General Meeting in May 2015.

Committee membership
The membership of the Remuneration Committee is made up of the following non-executive directors:

T A Wallis (Chairman)
I G Brown

Neither of the Committee members has any day-to-day involvement in the running of the Company, nor do they have any business or other relationship that could affect, or appear to affect, the exercise of their independent judgement, other than as shareholders. No director votes on any decision about his or her own remuneration.

The Committee met three times in the year.

Remuneration policy
The Committee determines on behalf of the Board, the remuneration for the executive directors and such other members of the senior management as it is designated to consider and oversees any major changes in employee benefit structures throughout the Company. Remuneration levels are set in order to attract high calibre recruits and to retain and motivate those directors and employees once they have joined the Company to ensure the future success of the business and to deliver shareholder value. This is achieved by a combination of base salary, bonuses and share options, which are offered to executive directors and employees at all levels.

During the year, the Committee received advice on remuneration strategy for the executive directors from remuneration advisors MM&K. In addition MM&K advises the Company on matters relating to the Group's share option schemes.

The Company believes that the QCA Remuneration Committee Guide for Smaller Quoted Companies (the Guide) is more appropriate for the Company than the UK Corporate Governance Code (which is designed primarily for the largest listed companies). The Group has followed the Guide in determining its remuneration policy.

Future remuneration policy table
The following table summarises details of the Company's future remuneration policy for the executive directors.

Table of future remuneration policy for executive directors – key elements of remuneration

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes in policy for 2015/16
Base salary	Help recruit and retain employees. Reflects individual experience and role.	All executive directors receive a base salary. The salary reflects the experience, level of competence and days worked of the individual to whom it applies, as judged by the Committee, taking into account salary levels in the market. Reviewed annually and fixed for 12 months commencing 1 February. Decision influenced by: – role, experience and performance – average change in broader workforce salary – total organisational salary budgets. Salaries are benchmarked against companies of similar size and complexity in similar sectors.		None	No change to salary.
Benefits and pension	Help recruit and retain employees.	Directors are entitled to permanent health insurance in common with all other employees. In addition directors are entitled to an allowance in lieu of pensions, car and other benefits.	Benefit allowance is 20% of base salary. Full cost of the annual PHI policy: T K O'Brien £1,964 P L Clifford £992	None	None
Annual bonus	Rewards the achievement of annual targets, delivery of personal objectives and strategic business targets if appropriate.	The executive directors who served during the year are members of the Company's Senior Management Bonus Scheme. Under the terms of the Scheme, the Remuneration Committee assesses the directors' individual performances soon after the end of the financial year, judged against pre-determined targets. The criteria for awarding bonuses includes corporate and personal objectives. The principal corporate financial objective on which the directors are currently judged is operating profit. Bonuses are capped at 60% of base salary. Targets are renewed annually and relate to trading performance. If appropriate, there are gate conditions that apply to the payment of bonuses. Bonus level is determined by the Committee after the year end, based on performance against targets. There is no deferral of bonus, nor any clawback provisions as the Committee thinks such complexity is unnecessary where the bonus maximum is 60% of salary in a business environment like LiDCO's.	Target % of salary: 30% Maximum % of salary: 60%	The majority of the bonus is based on achievement of specific targets of operating profit as well as partly on the achievement of other non-financial objectives which may be relevant for the year in question: – maximum 50% salary judged by performance of Group operating profit – maximum 10% salary for personal objectives.	No change to policy.
Share options	Incentivises executive directors to achieve returns for shareholders over a longer time frame.	LiDCO has four share option plans including EMI, HMRC Approved, Unapproved Options and consultants. Awards of share options are made with vesting dependent on the achievement of performance conditions over the three subsequent years. The Committee is of the opinion that clawback provisions are an unnecessary complication for a company of the size of LiDCO.	Awards in 2014: T K O'Brien £nil P L Clifford £nil	The release of an award is dependent upon the individual's continued employment for a three-year holding period from the date of grant. Executives only benefit when the share price increases. Awards will have performance conditions.	No change to policy. Note re 2015/16 awards: future award levels will depend on headroom capacity under the 10% dilution rule.

Directors' remuneration report
continued

Remuneration policy of the non-executive directors
The Board determines the remuneration of the Chairman and non-executive directors. The non-executive directors do not participate in the Group's share option schemes and are not eligible for annual incentive payments or benefits in kind.

Remuneration of directors

Year ended 31 January 2015

	Salary and fees £'000	Allowance in lieu of benefits £'000	Benefits £'000	Bonus £'000	Total £'000	2014 £'000
T A Wallis	46	–	–	–	46	46
T K O'Brien	207	41	2	14	264	295
P L Clifford	149	30	1	10	190	227
I G Brown	29	–	–	–	29	29
Total	431	71	3	24	529	597

Contracts of service
Details of the service contracts for the directors are as follows:

Executive directors
The service contract of Dr O'Brien is dated 29 June 2001 and is not set for a specific term but includes a rolling 12 months' notice period. Mr Clifford has a service contract with the Company dated 21 April 2008 which is not for a specific term but includes a rolling six months' notice period. Following the announcement on 16th September 2014 of Dr O'Brien's decision to retire, Dr O'Brien gave the Group notice to terminate his employment on 22nd September 2015.

Non-executive directors
The non-executive directors do not have service contracts with the Company. The letter of appointment for each non-executive director states that they are appointed for an initial period of three years. At the end of the initial period, the appointment may be renewed for a further period if the Company and the director agree. In keeping with best practice, these appointments are terminable without notice by either party. The Chairman's appointment is for a term ending 19 December 2015 and Mr Brown's appointment for a term ending 11 October 2015.

Directors' interests in share options
Options granted to the executive directors are as follows:

Name	Option type	Options at 31 Jan 2014	Date of grant	Options granted during 2014	Exercised during 2014	Lapsed during the year	Options at 31 Jan 2015	Exercise price (p)	Exercisable from	Expiry date
T K O'Brien	EMI	11,627	Apr-2005				**11,627**	21.50	Apr-2008	Apr-2015
	Unapproved	265,768	Apr-2005				**265,768**	21.50	Apr-2008	Apr-2015
	EMI	150,000	May-2009				**150,000**	12.67	May-2012	May-2019
	EMI	1,692,557	May-2013				**1,692,557**	13.50	May-2016	May-2023
	Unapproved	2,785,154	May-2013				**2,785,154**	13.50	May-2016	May-2023
		4,905,106			Nil	Nil	**4,905,106**			
P L Clifford	Approved	66,000	Apr-2008				**66,000**	7.50	Apr-2011	Apr-2018
	Approved	75,000	May-2009				**75,000**	12.67	May-2012	May-2019
	EMI	100,000	Jun-2010				**100,000**	19.92	Jun-2013	Jun-2020
	EMI	478,650	Apr-2011				**478,650**	15.00	Apr-2014	Apr-2021
	EMI	76,833	Apr-2012				**76,833**	18.00	Apr-2015	Apr-2022
	EMI	145,448	Jul-2012				**145,448**	18.38	Jul-2015	Jul-2022
	EMI	764,938	May-2013				**764,938**	13.50	May-2016	May-2023
	Unapproved	264,358	May-2013				**264,358**	13.50	May-2016	May-2023
		1,971,227			Nil	Nil	**1,971,227**			
Totals		6,876,333			Nil	Nil	**6,876,333**			

The share price was 24.95 pence on 1 February 2014 and 7.5 pence on 31 January 2015, with high and low during the year of 26.5 pence and 7.5 pence respectively.

Pensions
No pension contributions were payable by the Group during the year (2013/14: £nil).

Shareholder return
The graph below shows the share price performance since January 2010, using the FTSE TechMARK Mediscience Index as a comparator, which the directors consider to be a suitable benchmark index.

Theresa Wallis
Chairman of the Remuneration Committee
30 March 2015

Directors' report

The directors of LiDCO Group Plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2015.

Results and dividends
The Group's revenue for the year was £8,267,000 (2013/14: £8,631,000). The Group made a consolidated profit after taxation of £343,000 (2013/14: £299,000). The directors do not recommend the payment of a dividend (2013/14: £nil).

Research and development
The Group continued to develop the LiDCO products during the year. Details of the costs expended on research and development are set out in Notes 3 and 8 to the financial statements.

Share capital and share premium account
Full details of the authorised and issued share capital of the Group, together with details of the movements in the Company's issued share capital and the share premium accounts during the year, are shown in note 13 on page 48 and notes 4 and 5 on page 54.

Directors
The directors of the Group who served during the year are set out below; short biographies are set out on page 17.

T A Wallis	Non-Executive Chairman
T K O'Brien	Chief Executive Officer
P L Clifford	Finance Director
I G Brown	Non-Executive Director

Dr O'Brien retires by rotation and Ms Wallis and Mr Brown, having served more than nine years retire in line with section B 7.1 of the UK Corporate Governance Code. The retiring directors, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' remuneration
The Remuneration Report, which includes information regarding directors' service contracts, appointment arrangements and interests in share options, can be found on page 21.

Directors' interests in shares
The directors who held office at 31 January 2015 had beneficial interests in the ordinary shares of the Group as shown below:

Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2015 Number	31 January 2014 Number
T A Wallis	**331,037**	331,037
T K O'Brien	**11,516,563**	11,516,563
P L Clifford	**659,660**	659,660
I G Brown	**200,000**	200,000

The directors have no interests in the shares of the Company's subsidiary undertakings.

Directors' indemnities and Directors' and Officers' insurance
The Company has exercised the power given by shareholders at the 2006 Annual General Meeting to extend the indemnities to directors and officers against liability to third parties. The directors also have Directors' and Officers' insurance cover in place in respect of personal liabilities which may be incurred by directors and officers in the course of their service with the Group.

Employment policy
Equal opportunity is given to all employees regardless of their gender, race or ethnic origin, religion, age, disability or sexual orientation.

The Group's policy is to encourage the involvement of all employees in the development and performance of the Group. The Group has 45 employees who are briefed on the Group's activities through meetings and informal discussions and all employees are encouraged to give their views on matters of common concern through their line management. A significant number of employees have share options.

Significant shareholdings
As at 28 February 2015 the Company was aware of the following shareholdings in excess of 3% of the Group's ordinary share capital:

Shareholder	Number of shares in which there is an interest	Percentage notified*
Ingalls & Snyder LLC	21,192,717	10.91%
Liontrust Asset Management	16,207,779	8.35%
H J Leitch	14,681,183	7.56%
P A Brewer	13,759,747	7.09%
Quilter Cheviot Management Limited	12,332,687	6.35%
T K O'Brien	11,516,563	5.93%
R M Greenshields	8,899,550	4.58%
Octopus Investments Limited	8,594,831	4.43%
D M Band	7,160,832	3.69%
Hargreave Hale & Co	5,869,924	3.02%

* The percentages shown are based on the issued share capital at that date.

Directors' responsibilities for the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) and International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. The directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. To the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' report
continued

Going concern
The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 6 to 15. In addition, note 12 to the financial statements include the Group's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and smart cards which represented 75% of its LiDCO product revenues in the year to 31 January 2015.

The Group finances its operations through shareholders' funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial Risk Management
The Financial Risk Management objectives and policies of the Group, including the exposure to interest rate risk, liquidity risk and currency risk are set out in note 12 to the financial statements on pages 45 to 48.

Internal controls, regulation and risk management
The composition of the Board and the senior management team provides a suitable range of knowledge and experience to enable adequate risk monitoring and internal control. The Company has implemented an organisational structure with clearly-defined responsibilities and lines of accountability.

Detailed budgets are prepared annually and progress against budget is reviewed monthly. Underpinning the monthly financial reporting is a system of internal control, based on authorisation procedures.

The Board has established a process involving all departments for the comprehensive assessment of risks to the business including the development and regular updating of a risk register which is reviewed by the Board at least annually. Actions to mitigate risk are identified and agreed. In addition the principal risks are discussed at all regular Board meetings. There is a list of the types of decisions reserved for the Board and Board decisions include discussion of the risks as well as the benefits and opportunities.

As a medical device Company, LiDCO also has a system of regulatory controls, to ensure compliance with all requirements of the EC Medical Devices Directive, the US Food & Drug Administration (FDA) and other national regulatory authorities. During the year the Company maintained its compliance with ISO 13485 (Medical Devices – Quality Management Systems).

The adequacy of internal controls and the internal control structures are reviewed annually by the Board and were last reviewed in March 2015.

Auditors
A resolution to re-appoint Grant Thornton UK LLP as auditors and to authorise the directors to set their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting
The Notice to convene the Annual General Meeting of the Company to be held on Wednesday 13 May 2015 is set out in a separate circular including an explanation of each resolution.

On behalf of the Board

Paul Clifford
Director
30 March 2015
Company Registration Number: 2659005

Independent auditor's report to the members of LiDCO Group Plc

We have audited the Group financial statements of LiDCO Group Plc for the year ended 31 January 2015 which comprise the consolidated comprehensive income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in shareholders equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement on page 26, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements
In our opinion the group financial statements:
- give a true and fair view of the state of the Group's affairs as at 31 January 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where under the Companies Act 2006 we are required to report to you if, in our opinion:
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2015.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
30 March 2015

Consolidated comprehensive income statement

For the year ended 31 January 2015

	Note	Year ended 31 January 2015 £'000	Year ended 31 January 2014 £'000
Revenue	2	**8,267**	8,631
Cost of sales		**(2,535)**	(2,736)
Gross profit		**5,732**	5,895
Administrative expenses		**(5,489)**	(5,660)
Profit from operations	3	**243**	235
Finance income		**7**	13
Finance expense		**(12)**	(31)
Profit before tax		**238**	217
Income tax	5	**105**	82
Profit and total comprehensive income for the year attributable to equity holders of the parent		**343**	299
Earnings per share (basic and diluted) (pence)	6	**0.18**	0.15

All transactions arise from continuing operations.

There were no items of other comprehensive income for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated balance sheet

At 31 January 2015

	Note	2015 £'000	2014 £'000
Non-current assets			
Property, plant and equipment	7	**1,079**	1,065
Intangible assets	8	**1,789**	1,537
		2,868	2,602
Current assets			
Inventory	9	**2,119**	2,051
Trade and other receivables	10	**2,818**	2,139
Current tax		**123**	83
Cash and cash equivalents		**1,509**	2,373
		6,569	6,646
Current liabilities			
Trade and other payables	11	**(1,596)**	(1,550)
Deferred income	11	**(121)**	(274)
Borrowings	11	**–**	(175)
		(1,717)	(1,999)
Net current assets		**4,852**	4,647
Net assets		**7,720**	7,249
Equity attributable to equity holders of the parent			
Share capital	13	**971**	969
Share premium		**27,798**	27,760
Merger reserve		**8,513**	8,513
Retained earnings		**(29,562)**	(29,993)
Total equity		**7,720**	7,249

The financial statements were approved by the Board of Directors on 30 March 2015.

Theresa Wallis
Director

Terry O'Brien
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 January 2015

	Year ended 31 January 2015 £'000	Year ended 31 January 2014 £'000
Profit before tax	**238**	217
Finance income	**(7)**	(13)
Finance expense	**12**	31
Depreciation and amortisation charges	**732**	856
Share-based payments	**88**	60
(Increase)/decrease in inventories	**(68)**	220
(Increase)/decrease in receivables	**(679)**	221
Increase/(decrease) in payables	**46**	(23)
Decrease in deferred income	**(153)**	(147)
Income tax credit received	**65**	144
Net cash inflow from operating activities	**274**	1,566
Cash flows from investing activities		
Purchase of property, plant and equipment	**(363)**	(342)
Purchase of intangible assets	**(635)**	(723)
Finance income	**7**	13
Net cash used in investing activities	**(991)**	(1,052)
Net cash (outflow)/inflow before financing	**(717)**	514
Cash flows from financing activities		
Finance expense	**(12)**	(31)
Repayment of finance lease	**(175)**	(190)
Issue of ordinary share capital	**40**	20
Net cash outflow from financing activities	**(147)**	(201)
Net (decrease)/increase in cash and cash equivalents	**(864)**	313
Opening cash and cash equivalents	**2,373**	2,060
Closing cash and cash equivalents	**1,509**	2,373

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended 31 January 2015

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 February 2013	968	27,741	8,513	(30,352)	6,870
Issue of share capital	1	19	–	–	20
Share-based payment expense	–	–	–	60	60
Transactions with owners	1	19	–	60	80
Profit and total comprehensive income for the year	–	–	–	299	299
At 31 January 2014	969	27,760	8,513	(29,993)	7,249
Issue of share capital	2	38	–	–	40
Share-based payment expense	–	–	–	88	88
Transactions with owners	2	38	–	88	128
Profit and total comprehensive income for the year	–	–	–	343	343
At 31 January 2015	**971**	**27,798**	**8,513**	**(29,562)**	**7,720**

The share premium account represents the excess over the nominal value for shares allotted.

The merger reserve represents a non distributable reserve arising from historic acquisitions.

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 January 2015

1 Principal accounting policies

The Group's principal activity is the development, manufacture and sale of cardiac monitoring equipment. LiDCO Group plc is the Group's ultimate parent company. It is incorporated and domiciled in England & Wales and situated at the address shown on page 56. The Group's shares are listed on the Alternative Investment Market of the London Stock Exchange.

Basis of preparation

These financial statements have been prepared in accordance with the principal accounting policies adopted by the Group, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations (IFRIC) as adopted by the EU and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They are presented in sterling, which is the functional currency of the parent company.

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The accounting policies have been applied consistently throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31st January 2015.

The following standards have been amended or became effective during the year. The Group's consolidated financial statements have been prepared in accordance with these changes where relevant.

- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11: Joint arrangements (effective 1 January 2014)
- IFRS 12: Disclosures of interest in other entities (effective 1 January 2014)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2014)

Application of these standards did not result in any impact on the financial statements for 2015.

Standards issued but not yet effective

In addition, the following is a list of standards that are in issue but are not effective in 2015, and have not yet been endorsed for use in the EU, together with the effective date of application to the Group:

- IFRS 9: Financial instruments (IASB effective date 1 January 2018)

The directors do not anticipate that the adoption of these standards will have a material impact on the Group's reported results.

Going concern
The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 6 to 15. In addition, note 12 to the financial statements include the Group's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and Smartcards which represented 75% of its total LiDCO product revenues in the year to 31 January 2015.

The Group finances its operations through shareholders' funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Accounting convention
The financial statements are prepared under the historic cost convention. The measurement basis and significant accounting policies are set out below.

Basis of consolidation
The Group's consolidated financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 January 2015. Subsidiary undertakings are all entities over which the Group has the power to control the financial and operating policies so as to obtain economic benefits from its activities. The Group obtains and exercises control through voting rights.

Business combinations are dealt with by the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary at the acquisition date whether or not they were recognised in the statements of the subsidiary prior to acquisition. On initial recognition the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. The results of any subsidiary undertakings acquired during the period, where applicable, are included from the date of acquisition. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition
Revenues are recognised at fair value of the consideration receivable net of the amount of value added taxes.

Sale of goods
Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products and services to entities outside the consolidated entity. Product sales revenue is recognised when the risks and rewards of ownership of the goods passes to the customer, which is normally upon delivery, and when the amount of revenue can be measured reliably.

Where delivery is delayed at the buyer's request, but the buyer takes title to the goods and accepts invoicing, the Group recognises the revenue as a capital Bill and Hold sale provided that it is probable that delivery will be made, the goods are on hand and ready for delivery, the buyer acknowledges the deferred delivery and usual payment terms apply.

Licence fees
Licence fees are recognised in accordance with the substance of the relevant distribution agreement, provided that it is probable that the economic benefit associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Licence fees received in advance of the recognition of those fees is shown as deferred income.

Delivery of services
Revenue from rendering services is recognised in the period in which the service is provided.

Interest income
Interest income is brought to account as it accrues, using the effective interest method.

Other income
Other income from support and maintenance is brought to account when the consolidated entity's right to receive income is established and the amount can be reliably measured.

Notes to the financial statements
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Research and development
Research expenditure is charged to the income statement in the period in which it is incurred.

Development costs are capitalised when all the following conditions are satisfied:
- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Capitalised development costs which comprise cost of materials, labour and attributable overheads are amortised over a period of three to seven years, from the date the asset is available for use. Labour costs of the development department are apportioned between development work which fulfils the above criteria and is capitalised and the maintenance of existing products which are expensed as incurred.

Development costs not meeting the criteria for capitalisation are expensed as incurred.

Intangible assets – development costs
Intangible assets represent costs relating to product registration in new countries, product development costs and clinical trials on the LiDCO system. Where the Directors are satisfied as to the technical, commercial and financial viability of these projects, the expenditure has been capitalised and is amortised in equal amounts over the useful life, commencing when the asset is available for use.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Amortisation is calculated to write down the cost of assets less estimated residual value by equal instalments over their estimated useful life, on a straight line basis. The amortisation periods generally applicable are:

Clinical trials	Three years
Product registration costs	Five years
Product development	Three to seven years

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation. Depreciation is calculated to write down the cost less estimated residual value of these assets by equal annual instalments on a straight line basis over their estimated useful economic lives which are reassessed annually. The periods/rates generally applicable are:

Leasehold improvements	Over the expected life of the lease
Plant and machinery	10% per annum
Fixtures and fittings	12.5% per annum
Office equipment	20% per annum
Computer equipment	33% per annum
Medical monitors	20% to 33% per annum

Medical monitors include equipment on long term loan to hospitals for active use where the hospital pays for disposables. Also included in this category is equipment for demonstration purposes, clinical trials and testing.

Leases
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are capitalised at the lower of fair value or present value of the minimum lease payments in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Profits generated on the sale and leaseback of fixed assets are deferred and recognised over the period of the lease.

Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing locations and condition.

Income tax
Current tax is the tax currently payable/receivable based on the taxable result for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to other comprehensive income or equity in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity.

Foreign currency
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss statement.

Trade and other receivables
Trade receivables, which generally have 30-90 day terms, are initially recognised at fair value and subsequently at amortised cost using the effective interest method, less provisions for impairment. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, bank overdrafts and demand deposits with an original maturity of three months or less, and which are subject to an insignificant risk of change in value.

Financial liabilities and equity
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes party to the contractual provisions of the instrument and are initially recorded at fair value net of issue costs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities
The Group's financial liabilities include borrowings, trade and other creditors. Financial liabilities are measured initially at fair value net of transaction costs and thereafter at amortised cost using the effective interest rate method.

Share-based payments
The Group has four equity-settled share-based remuneration schemes for employees and consultants. Where share options are awarded, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market-related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market-related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date which is adjusted if the number of share options expected to vest differs from the previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

Impairment
The carrying values of property, plant and equipment and intangible assets with finite lives are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of impairment loss.

Notes to the financial statements
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Key judgements in applying the entity's accounting policies
The Group's management makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates
Useful lives of intangible assets and property, plant and equipment
Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the income statement in specific periods (notes 7 & 8).

Inventory
The Group reviews the net realisable value of, and demand for, its inventory on a regular basis to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include the timing and success of future technological innovations, competitor actions, supplier prices and economic trends (note 9).

Trade receivables
Trade receivables are primarily due from three groups: hospitals in the UK and USA where direct sales are made, global corporate distributors and independent distributors, predominantly in Europe and the Rest of the World. In making provision for overdue trade receivables, management consider the first two groups to be generally of lower risk than those due from independent distributors and apply a lower level of provision. The size of the distributor together with its financial credit rating and the length of relationship with the Group are also taken into account (note 10).

Judgements
Licence income
The Group may receive licence fees in connection with the granting of exclusive distribution rights for overseas territories. When recognising such licence fees management considers the substance of the relevant distribution agreement. Any work that the Group needs to undertake to fulfil its obligation is taken into consideration and the period over which the work is likely to be performed. Revenue is only recognised provided that it is probable that the economic benefit associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Normally such licence fees are received on signature of the distribution agreement.

Bill and Hold sales
The Group recognises Bill and Hold sales where delivery is delayed at the buyers request. The recognition of these sales require management's judgement of certain criteria as detailed in the Accounting Policies under revenue recognition.

Capitalisation of development costs
The Group's policy on the capitalisation of development costs of intangible assets are detailed in the accounting policies above. The inclusion of such costs requires management's judgement on the technical, commercial and financial viability of the projects.

2 Revenue and segmental information

The Group has one segment – the supply of monitors, consumables and support services associated with the use of the LiDCO's cardiac monitoring equipment. Geographical and product type analysis is used by the chief operating decision maker to monitor sales activity and is presented below:

Revenue and result by geographical region

Group revenue	**Year ended 31 January 2015 £'000**	Year ended 31 January 2014 £'000
UK	**5,593**	6,167
USA	**1,104**	857
Continental Europe	**899**	959
Japan	**3**	269
Rest of World	**668**	379
	8,267	8,631
Result		
UK	**2,355**	2,750
USA	**230**	59
Continental Europe	**488**	407
Japan	**1**	167
Rest of World	**326**	165
Total	**3,400**	3,548
Unallocated costs	**(3,157)**	(3,313)
Profit from operations	**243**	235

Products and services

	Year ended 31 January 2015 £'000	Year ended 31 January 2014 £'000
Monitor sales	**1,322**	1,433
Disposable sales	**4,972**	5,145
Distributed third party disposables	**1,641**	1,765
Total product revenue	**7,935**	8,343
Other income including service contracts	**332**	288
	8,267	8,631

The Group can identify trade receivables and trade payables relating to the geographical areas. As noted above, the Group has one segment and other assets and liabilities together with non sales-related overheads are not accounted for on a segment by segment basis. Accordingly, segment assets, liabilities and segment cash flows are not provided.

All non-current assets are located in the United Kingdom.

Material customers

During the year a customer, based in the UK (2013/14: based in the UK), accounted for more than 10% of the Group's total revenue. This revenue is in respect of distributed third party disposables. Revenue recognised during the year is as follows:

	2015 £'000	**2015 % revenue**	2014 £'000	2014 % revenue
Revenue recognised	**824**	**10%**	859	10%

Notes to the financial statements
continued

3 Profit from operations

The profit on operations before taxation is stated after:

	Year ended 31 January 2015 £'000	Year ended 31 January 2014 £'000
Auditors' remuneration:		
– Fees payable to the Company auditors for the audit of the Group accounts:	**20**	20
Fees payable to the Company auditors for other services:		
– Audit of the Company's subsidiaries	**28**	28
– Other services relating to the interim review*	**11**	10
Research and development expenditure	**195**	124
Depreciation of property, plant and equipment	**349**	332
Amortisation of intangible assets	**383**	524
Operating leases – rental of land and buildings	**168**	168
Write down of inventories	**13**	55
Exchange rate (losses)/gains	**(2)**	1

The cost of goods sold during the year amounted to £2,077,000 (2014: £2,346,000)

* Non-audit services comprise £11,000 for interim review services. The Board considers it cost effective for the auditors to provide these services.

4 Staff costs

Staff costs during the year were as follows:

Group	Year ended 31 January 2015 £'000	Year ended 31 January 2014 £'000
Wages and salaries	**2,578**	2,612
Social security costs	**239**	235
Share-based payments charge	**88**	60
	2,905	2,907

The average number of employees (including non-executive directors) of the Company during the year was:

	2015 Number	2014 Number
Production	**12**	12
Sales	**20**	19
Administration	**14**	13
	46	44

The remuneration of directors is set out below. Additional information on directors' remuneration, share options, long-term incentive plans, pension contributions and entitlements can be found in the Directors' Remuneration Report on pages 21 to 25 and forms part of these accounts.

	2015 £'000	2014 £'000
Short-term employee benefits	**602**	678
Share-based payments	**44**	30
	646	708

5 Tax on loss on ordinary activities

The tax credit is based on the loss for the year and represents:

	Year ended 31 January 2015 £'000	Year ended 31 January 2014 £'000
United Kingdom corporation tax at 21.33% (2014: 23.17%)	**–**	–
United States income taxes	**10**	–
Research and development expenditure tax credits – current year	**(123)**	(83)
– prior year	**8**	–
Total tax	**(105)**	(83)

United States tax has been calculated at the Federal/State tax rates applicable to profits arising in the respective States.

The tax assessed for the year differs from the standard rate of corporation tax applied to the trading results. The differences are explained below:

Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 21.33% (2014: 23.17%)	**51**	50
Effect of:		
Expenses not deductible for tax purposes	**5**	17
Depreciation for the period in excess of capital allowances	**(49)**	(53)
United States income taxes	**10**	–
Other temporary differences	**11**	6
Additional deduction for research and development expenditure	**(201)**	(196)
Losses surrendered for research and development tax credit	**183**	176
Research and development expenditure tax credits – current year	**(123)**	(83)
Research and development expenditure tax credits – prior year	**8**	–
Total tax income	**(105)**	(83)

The above table reconciles the income tax credit with the accounting loss at the standard rate of UK corporation tax.

The current year research and development tax credit of £123,000 (2014: £83,000) represents 16% (2014: 12%) of the Group's qualifying research and development spend.

The amount of the unused tax losses and temporary differences for which no deferred tax asset was recognised at the balance sheet date was:

	Year ended 31 January 2015 £'000	Year ended 31 January 2014 £'000
Unused losses (available indefinitely)	**24,149**	24,149
Temporary differences (available indefinitely)	**9**	47
	24,158	24,196

The related deferred tax asset (calculated at 20%) of £4.8m (2014: £4.8m calculated at 20%) which will be recognised in the accounts when the trend of profits has been established.

Notes to the financial statements
continued

6 Earnings per share

The calculation of basic earnings or loss per share is based on the earnings or loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The calculation of diluted earnings per share is based on the calculation described above adjusted to allow for the issue of shares on the assumed conversion of all dilutive options. Share options are regarded as dilutive when, and only when, their conversion to ordinary shares would decrease earnings or increase the loss per share.

	Year ended 31 January 2015 £'000	Year ended 31 January 2014 £'000
Profit after tax for the financial year	**343**	299
	Number ('000)	Number ('000)
Weighted average number of ordinary shares	**194,175**	193,831
Earnings per share – basic and diluted (p)	**0.18**	0.15

7 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Medical monitors £'000	Total £'000
Cost						
At 1 February 2013	561	463	98	582	1,351	3,055
Additions	–	–	10	44	288	342
Retirements	–	(16)	(3)	(40)	–	(59)
At 31 January 2014	561	447	105	586	1,639	3,338
Additions	3	37	5	99	219	363
Retirements	–	–	–	–	–	–
At 31 January 2015	**564**	**484**	**110**	**685**	**1,858**	**3,701**
Accumulated depreciation						
At 1 February 2013	554	411	89	490	456	2,000
Charge for the year	2	16	4	58	252	332
Retirements	–	(16)	(3)	(40)	–	(59)
At 31 January 2014	556	411	90	508	708	2,273
Charge for the year	2	16	5	65	261	349
Retirements	–	–	–	–	–	–
At 31 January 2015	**558**	**427**	**95**	**573**	**969**	**2,622**
Carrying amount at 31 January 2015	**6**	**57**	**15**	**112**	**889**	**1,079**
Carrying amount at 31 January 2014	5	36	15	78	931	1,065

Plant and equipment is depreciated at various rates depending on the estimated life of the item of plant or equipment. The rates of depreciation are shown in Note 1.

Medical monitors include equipment on long term loan to hospitals for active use where the hospital pays for disposables. Also included in this category is equipment for demonstration purposes, clinical trials and testing.

During the year to 31 January 2012, the Group sold a number of medical monitors and then leased back on a three year financing lease basis. The monitors have been included as additions at their fair value of £518,000 and has been depreciated over three years. The depreciation charge for the year of the leased assets was £173,000 (2014: £173,000), and the net book value at 31 January 2015 was £nil.

8 Intangible assets

	Clinical trials £'000	Product registration £'000	Product development £'000	Total £'000
Cost				
At 1 February 2013	243	861	3,919	5,023
Additions	40	62	621	723
At 31 January 2014	283	923	4,540	5,746
Additions	–	95	540	635
At 31 January 2015	**283**	**1,018**	**5,080**	**6,381**
Accumulated amortisation				
At 1 February 2013	147	638	2,900	3,685
Charge for the year	49	77	398	524
At 31 January 2014	196	715	3,298	4,209
Charge for the year	40	65	278	383
At 31 January 2015	**236**	**780**	**3,576**	**4,592**
Carrying amount at 31 January 2015	**47**	**238**	**1,504**	**1,789**
Carrying amount at 31 January 2014	87	208	1,242	1,537

Intangible assets includes assets that are internally generated and amortised over their estimated useful lives. Amortisation costs are included in administrative expenses. Additions for the year included internally generated assets of £258,000 (2014: £292,000), and externally purchased assets of £377,000 (2014: £431,000). The rates of amortisation are shown in Note 1.

9 Inventory

	2015 £'000	2014 £'000
Raw materials and consumables	**718**	658
Finished goods and goods for resale	**1,401**	1,393
	2,119	2,051

At 31 January 2015, inventories stated net of allowances for obsolete or slow moving items, was £85,000 (2014: £72,000).

Notes to the financial statements
continued

10 Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	**2,538**	1,837
Other receivables	**119**	118
Prepayments	**161**	184
	2,818	2,139

All amounts are short term and the directors consider that the carrying amount of trade and other receivables approximates to their fair value. All of the Group's trade and other receivables have been reviewed for indicators of impairment. At 31 January 2015, trade receivables of £2.11m (2014: £1.64m) were within their agreed payment terms. In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of trade receivables past due but not impaired is as follows:

	2015 £'000	2014 £'000
Not more than three months	**284**	155
More than three months but not more than six months	**73**	9
More than six months but not more than one year	**39**	11
More than one year	**36**	23
	432	198

Movements in Group provisions for impairment of trade receivables are as follows, which are included within administrative expenses in the income statement.

	2015 £'000	2014 £'000
Opening balance	**36**	130
Provision for receivables impairment	**–**	7
Receivables written off in year	**–**	(101)
Closing balance	**36**	36

The other classes within trade and other receivables do not contain impaired assets.

11 Current liabilities

	2015 £'000	2014 £'000
Trade payables	**926**	919
Social security and other taxes	**299**	277
Accruals and other creditors	**371**	354
Deferred income	**121**	274
Finance leases	**–**	175
	1,717	1,999

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

The finance lease is repayable in equal monthly instalments over three years, and is denominated in US dollars.

12 Financial instruments

Capital risk management
The Group manages its capital structure to ensure that it will be able to continue as a going concern. The capital structure of the Group consists of cash and cash equivalents (as disclosed in the cash flow statement), borrowings (as disclosed in the note below) and equity (as disclosed in the consolidated statement of changes in shareholders' equity) attributable to the shareholders of the parent as disclosed in the consolidated statement of changes in equity.

Financial risks
The Group's financial instruments comprise cash and liquid resources, finance lease liabilities, borrowings and items such as trade receivables and trade payables that arise from its operations.

The main risks that arise from the Group's financial instruments are credit, interest rate, liquidity and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk
The Group's credit risk is primarily attributable to trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimates by management based on prior experience of customers which is typified by a small number of high value accounts and their assessment of the current economic environment. The maximum exposure to trade receivables is £2,657,000 (2014: £1,955,000).

The credit risk on liquid funds is limited because the counterparties are UK-based clearing banks.

Notes to the financial statements
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Liquidity risk
The Group seeks to manage this financial risk by ensuring sufficient liquidity through the use of variable rate bank and overdraft facilities is available to meet foreseeable needs and by investing surplus cash assets safely and profitably.

Liquidity risk analysis
The Group manages its liquidity needs by carefully monitoring scheduled finance lease payments for long term financial liabilities as well as cash outflows due in month-to-month business. Liquidity needs are monitored on a month-to-month basis.

The Group maintains cash and marketable securities to meet its liquidity requirements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 January 2015, the Group's financial liabilities have contractual maturities which are summarised below:

	Current		Non Current	
31 January 2015	Within 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Bank overdraft	–	–	–	–
Trade payables	**1,596**	–	–	–
Finance lease liabilities	–	–	–	–
	1,596	–	–	–

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows:

	Current		Non Current	
31 January 2014	Within 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Bank overdraft	–	–	–	–
Trade payables	1,550	–	–	–
Finance lease liabilities	87	88	–	–
	1,637	88	–	–

Market risks
Interest rate risk
The Group finances its operations through a mixture of shareholders' funds, variable rate bank facilities and medium term loans. The Group accepts the risk attached to interest rate fluctuations as interest rates have been relatively stable or declined over the last three years and the interest expense is a small proportion of total administrative expenses.

Currency risk
The Group manages currency risk by assessing the net exposure in each non-sterling currency in which exposure arises. The only significant exposure relates to US dollars. The Group accepts the risk attached to fluctuations in the US dollar exchange rate as US dollar payables are largely mitigated by US dollar receivables from sales.

Group interest rate profile

	Floating rate		
	Cash current bank accounts	Deposit and reserve account	Total
Financial assets at 31 January 2015	£'000	£'000	£'000
Currency			
Sterling	**141**	**1,204**	**1,345**
US dollars	**144**	**–**	**144**
Euro	**20**	**–**	**20**
	305	**1,204**	**1,509**

Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See note 1, principal accounting policies, covering financial assets and financial liabilities for explanations about how the category of instruments affects their subsequent measurement.

	2015	2014
Current assets	**£'000**	£'000
Loans and receivables:		
– Trade and other receivables	**2,657**	1,955
– Cash and cash equivalents	**1,509**	2,373
	4,166	4,328

	2015	2014
Current liabilities	**£'000**	£'000
Trade payables and other short term financial liabilities	**1,297**	1,448
	1,297	1,448

Currency risk management

The Group is exposed to translation and transaction foreign exchange risk. The currency where the Group is most exposed to foreign currency volatility is US dollars. The Group had the following balances denominated in US dollars:

	US dollars	
	2015	2014
	£'000	£'000
Trade and other receivables	**114**	75
Cash and cash equivalents	**144**	57
Trade and other payables	**(78)**	(179)
	180	(47)

No hedging instruments are used. The Group keeps under review the extent of its exposure to currency fluctuations, which relate entirely to trading transactions.

Notes to the financial statements
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The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the Sterling to US dollar exchange rates. It assumes a percentage change in the exchange rate based on the foreign currency financial instruments held at each balance sheet date. Both of these percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

	US dollars	
	2015	2014
	£'000	£'000
Currency fluctuation	**13%**	9%

If Sterling had strengthened against the US dollar by the percentage above retrospectively, then this would have had the following impact:

	US dollars	
	2015	2014
	£'000	£'000
Net result for the year	**(325)**	(231)
Equity	**(325)**	(231)

If Sterling had weakened against the US dollar by the percentage above retrospectively, then this would have had the following impact:

	US dollars	
	2015	2014
	£'000	£'000
Net result for the year	**325**	231
Equity	**325**	231

Exposure to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

Fair values of financial assets and liabilities
There was no difference between the fair value and the book value of financial assets and liabilities.

13 Share capital

	2015	2014
	Number of shares	Number of shares
Issued and fully paid – ordinary shares of 0.5 pence each	**000**	000
At the beginning of the year	**193,870**	193,640
Issued for cash	**305**	230
At the end of the year	**194,175**	193,870

	£'000	£'000
At the beginning of the year	**969**	968
Issued for cash	**2**	1
At the end of the year	**971**	969

During the year 304,604 shares were issued on the exercise of share options with option prices ranging from 7.5 pence to 22.75 pence.

14 Share-based payments

Equity-settled share option scheme

The Group has four equity-settled share option schemes for employees and consultants. The normal earliest date for vesting is three years from the date of grant. The rules of the 2002 scheme provide that earlier vesting may occur in certain prescribed circumstances such as redundancy. The rules of all share option schemes provide for vesting in less than three years in the event of a change of control of the Group or for exceptional reasons at the absolute discretion of the Remuneration Committee. The latest date for exercise is ten years from the date of grant. The options are settled in equity once exercised. Where share options are awarded, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date and this is trued up or down at each accounting period.

	2015 Number	**2015 Weighted average exercise price (p)**	2014 Number	2014 Weighted average exercise price (p)
Outstanding at the beginning of the year	**12,452,241**	**14.6**	6,708,418	15.7
Issued in the year	**2,364,716**	**20.0**	6,861,655	13.1
Forfeited during the year	**(540,812)**	**18.5**	(887,832)	18.6
Exercised during the year	**(304,604)**	**12.8**	(230,000)	8.7
Outstanding at the end of the year	**13,971,541**	**15.4**	12,452,241	14.6
Exercisable at the end of the year	**4,085,215**	**16.1**	2,920,369	16.4

Fair value is determined by reference to the fair value of the instrument granted. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. These fair values were calculated using a Black-Scholes option pricing model with the following assumptions:

	2015	2014
Weighted average shares price (p)	**21.5**	13.1
Weighted average exercise price (p)	**20.0**	13.1
Expected volatility	**36%**	31%
Expected life (years)	**3.5**	3.5
Risk free rate	**1.3%**	0.5%
Expected dividend yield	**–**	–

The weighted average exercise share price for options exercised during the year was 12.8p (2014: 8.7p)

The expected volatility is based on the Group's historical share price averaged over a period equal to the expected life. The expected life is the average expected period to exercise. The risk free rate of return is based on UK Government gilts. The share options outstanding at the end of the year have exercise prices of between 7.5p and 22.75p per share and a weighted average remaining contractual life of 7.1 years.

Notes to the financial statements
continued

15 Capital commitments

At 31 January 2015 the Company had placed forward orders for the purchase of monitors and monitor components for inventory to the value of £276,000 (2014: £421,000). Delivery of these orders is scheduled between February 2015 and July 2015.

16 Contingent liabilities

There were no contingent liabilities at 31 January 2015 or 31 January 2014.

17 Leasing commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group	**2015 Land and buildings £'000**	**Other £'000**	2014 Land and buildings £'000	Other £'000
In one year or less	**168**	**114**	168	52
Between one and five years	**763**	**165**	903	25
	931	**279**	1,071	77

18 Related party transactions

During the year, no contracts of significance other than those disclosed within the directors' remuneration report were existing or entered into by the Group or its subsidiaries in which the directors had a material interest.

Key management compensation
Compensation for directors who are the only employees with responsibility for planning, directing and controlling the Group is set out in note 4 and disclosed in the directors' remuneration report.

Transactions between the Company and its subsidiaries which are related parties are eliminated on consolidation.

Independent auditor's report to the members of LiDCO Group Plc

We have audited the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2015 which comprise the parent company balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement on page 27, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements
In our opinion the parent company financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 January 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of LiDCO Group Plc for the year ended 31 January 2015.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
30 March 2015

Company balance sheet

At 31 January 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Investments	2	**65**	65
		65	65
Current assets			
Debtors: Amount due from subsidiary undertakings	3	**16,784**	16,784
Cash at bank		**130**	91
		16,914	16,875
Current liabilities			
Creditors: Amounts falling due within one year		**–**	–
Net current assets		**16,914**	16,875
Total assets less current liabilities		**16,979**	16,940
Net assets		**16,979**	16,940
Capital and reserves			
Called up share capital	4	**971**	969
Share premium account	5	**27,798**	27,760
Profit and loss account	5	**(11,790)**	(11,789)
Shareholders' funds		**16,979**	16,940

The financial statements were approved by the Board of Directors on 30 March 2015.

Theresa Wallis
Director

Terry O'Brien
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 January 2015

1 Principal accounting policies

Basis of preparation

The individual financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the individual financial statements have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies of the Company are set out below.

The financial statements have been prepared on the historical cost basis.

Going concern

The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 6 to 13. In addition, note 12 to the financial statements includes the Group's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and Smartcards which represented 75% of its LiDCO product revenues in the year to 31 January 2015.

The Company finances its operations through shareholders' funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment.

Foreign currency

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Share-based payment charges

The Company has four equity-settled share-based remuneration schemes for employees. Where share options are awarded to employees, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date which is adjusted if the number of share options expected to vest differs from the previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

Where the Company issues share warrants in respect of distributor arrangements, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period.

Notes to the financial statements
continued

2 Investments

Company	Shares in subsidiary undertakings £'000
Cost and net book value	
At 1 February 2014 and at 31 January 2015	65

The Company's beneficial interest in subsidiary undertakings consists of:

	Country of registration	Beneficial holding	Nature of business
LiDCO Limited	England and Wales	100%	Medical instruments and appliances
Cassette Analytical Systems Limited	England and Wales	100%	Dormant

3 Debtors

	2015 £'000	2014 £'000
Amount due from subsidiary	**16,784**	16,784

The amount due from subsidiary relates to the ongoing funding provided to the principal trading subsidiary, LiDCO Limited. The directors made a provision for impairment of £12m in the year to 31 January 2008, and consider that no further impairment provision is necessary at 31 January 2015 as the market capital of the Group exceeds the amount due. The timing of the repayment of this debt is uncertain and unlikely to be within one year.

4 Share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid 194,174,908 ordinary shares of 0.5p each	**971**	969

During the year 304,604 shares were issued on the exercise of share options with option prices ranging from 7.5 pence to 22.75 pence.

5 Reserves

	Share premium £'000	Other reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 February 2014	27,760	–	–	(11,789)
Loss for the year	–	–	–	(1)
Shares Issued	38	–	–	–
At 31 January 2015	**27,798**	**–**	**–**	**(11,790)**

6 Reconciliation of shareholders' funds

	2015 £'000	2014 £'000
Loss for the year	(1)	–
Shares issued	2	1
Share premium account	38	19
	39	20
Opening shareholders' funds	16,940	16,920
Closing shareholders' funds	16,979	16,940

7 Loss for the financial year

In accordance with the exemption given by section 408 of the Companies Act 2006, the holding company has not presented its own profit and loss account. The loss for the year of the Company was £1,000 (2013/14: £nil).

8 Related party transactions

Other than the charge for share based payments, there were no transactions between the Company and its subsidiary, which are related parties. The Company has taken advantage of the exemption in Financial Reporting Standard 8 'Related Party Disclosures' as it transacts only with its wholly-owned subsidiary, not to disclose details of related party transactions required by the standard.

Company information

Company registration number:
2659005

Registered office:
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Company website:
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Directors and Secretary:

Ms T A Wallis	Non-Executive Chairman
Dr T K O'Brien	Chief Executive Officer
Mr I G Brown	Non-Executive Director
Mr P L Clifford	Finance Director
Mr D W Armour	Company Secretary

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