LiDCO
Hemodynamic Monitoring

2017/18

LiDCO Group Plc

Annual Report & Accounts
for the year ended 31 January 2018

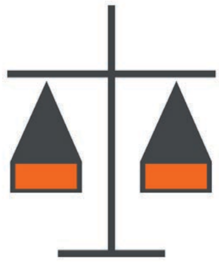
LiDCO Group Plc

71%* of

annual revenues come from RECURRING REVENUE

HIGH GROSS MARGIN @ 73%*

Scalable business model



£8.3m NET ASSETS

STRONG balance sheet CASH @ £3.2m

No.1 in UK

Used in over 50% of NHS hospitals. Excellent base for geographic expansion

PATENTED TECHNOLOGY

detects blood loss 5 TIMES FASTER than major competitors

CLINICAL EVIDENCE

Wealth of evidence showing benefits of hemodynamic technology

* Excludes third party products

www.lidco.com

Contents

Click on the headings to navigate through the document

Financial highlights

- LiDCO product revenue (excluding third party products) up **2%** to **£6.87m** (2017: £6.76m)
- Total revenue up **1%** to **£8.27m** (2017: £8.21m)
- Capital sales up **50%** to **£1.87m** (2017: £1.25m)
- High Usage Programme (HUP) deferred revenue of **£0.60m** (2017: nil)
- Gross margin (excluding third party products) of **73%** (2017: 79%)
- Adjusted loss before tax* of **£1.84m** (2017: profit £0.06m)
- Reported loss before tax of **£2.22m** (2017: profit £0.10m)
- Loss per share of **0.86 pence** (2017: profit per share 0.09 pence)
- Net cash outflow before financing of **£1.67m** (2017: inflow £0.52m), following investment in growth plan
- Debt free with cash at year-end of **£3.23m** (2017: £4.90m)

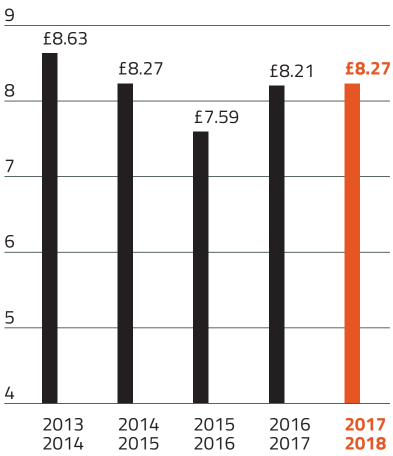
* adjusted for share-based payments of £0.1m and one-off stock write-down of £0.3m

Operational highlights

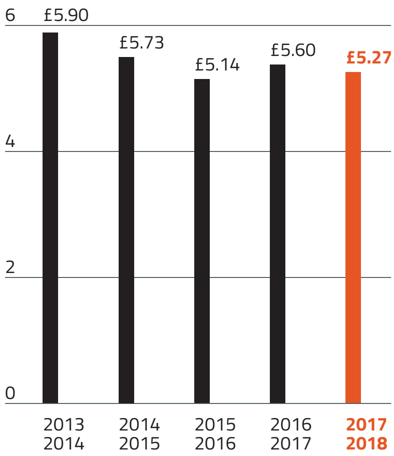
- LiDCO product revenues excluding China up 9% to £6.87m (2017: £6.27m), with an additional £0.60m (2017: nil) of deferred HUP revenues on the balance sheet
- No sales to China (2017: £0.49m) due to temporary hold on product sales, pending approval of a key accessory
- Execution of geographical expansion plan following 2016 fundraising. Recruitment of 10 sales & marketing heads
- First two HUP accounts in USA announced in the year and largest UK customer also agreed to convert to HUP
- At 31 January 2018, global HUP installed base of 96 monitors generating total annualised license revenue of £0.73m (2017: nil)
- New monitor platform with additional functionality launched in USA, Europe and Japan following regulatory clearances
- 315 monitors sold/placed (2017: 227)
- First royalty revenues received from ICU Medical
- New strategic partners signed as exclusive distributors in Japan (Merit Medical) and France (Spacelabs)
- Appointment of Jill McGregor as Chief Financial Officer

Post year end

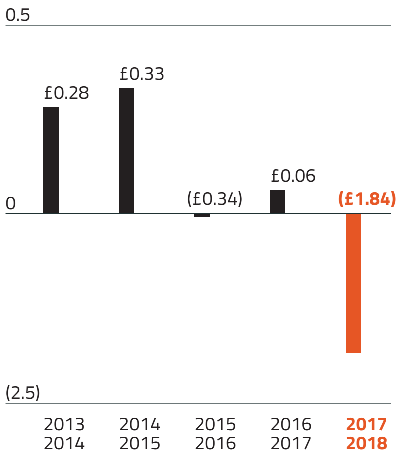
- Notification of termination of UK Argon Critical Care products distribution contract in September 2018



Revenue
£million



Gross profit
£million



Profit/(loss) from operations*
£million

Our products

LiDCO offers a range of cardiac output monitors designed for use in the critical care, operating theatre and peri-operative arenas for fluid and drug management.

Specifically designed for multi-parameter monitoring of both depth of anesthesia and fluids. Our monitors enable physicians to obtain immediate accurate feedback on a patient's fluid and hemodynamic status.

Core to the software is LiDCO's proven algorithm which has now been cited in over 200 clinical studies worldwide. In addition Medtronic's level of consciousness parameter and CNSystems' continuous non-invasive blood pressure (CNAP™*) monitoring can be incorporated.

LiDCO's advanced monitoring system adapts to patients' changing acuity levels and enables our customers to have seamless monitoring from the emergency department to the intensive care unit, the operating room to high dependency units. The new LiDCO*unity v2* has the flexibility to offer non-invasive, minimally invasive and calibrated hemodynamic monitoring all on one platform, meeting our customers' needs as their patients' acuity changes.

LiDCO monitors use single-patient consumables (sensors or smartcards) or software usage licenses which provide an ongoing revenue stream. This provides a flexibility in our business model whilst enabling our customer to choose either a per-patient cost or an unlimited use for a fixed fee.

*CNAP™ is a trademark of CNSystems Medizintechnik AG.

Positioned for growth

Geographical expansion

The Board estimates that the global market for hemodynamic monitoring to be currently in excess of $200m* per annum of which we have approximately a 4% share.

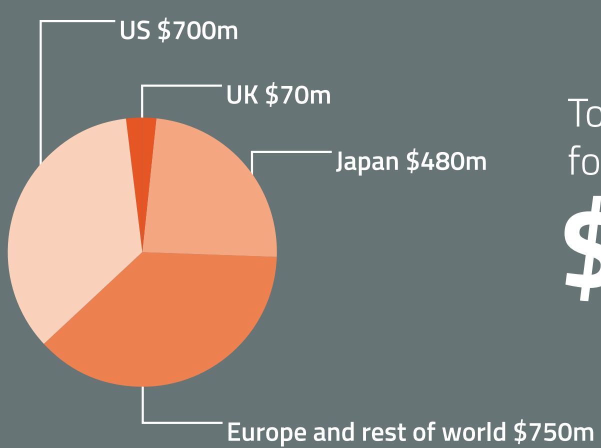
The USA is the largest market for hemodynamic monitoring, representing nearly half of the global demand. We believe this market offers the Group the greatest opportunity to grow and have invested in expanding our local commercial presence there.

New Business Model

We launched our High Usage Programme (HUP) which is our differentiated license agreement model focused on attracting the larger more established users of hemodynamic monitoring to convert to LiDCO technology, especially but not exclusively in our key growth US market. As the HUP program builds, the Board believes that these multi-year license agreements will provide good visibility to future revenues alongside strong cash generation that will greatly enhance the quality of the Group's earnings.

Technology Leadership

In July 2017 we launched our striking new slim widescreen monitor platform, LiDCO*unity v2*. The new monitor brings together LiDCO's non-invasive, minimally invasive and calibrated technologies, enabling continuous hemodynamic monitoring, including monitoring of level of consciousness across the entire clinical pathway in one monitor.



Total potential market for LiDCO products is

$2 billion

* The Board estimates that the current market is 10% penetrated

Strategic report

This was a year of investment as the Group expanded its commercial presence in the USA whilst building from a solid platform in our home UK market. The Group also introduced its novel differentiated business model, High Usage Plan (HUP), which has the potential to substantially increase the adoption of hemodynamic monitoring and provide good forward visibility of our revenues and cash flows. Through these actions, we believe that we have better positioned the Group for sustained higher growth in the medium term.

Overall 2017 was a successive year of growth, with LiDCO product revenues growing 2% over prior year. However, the underlying performance was even stronger when considering the revenue recognition effect of HUP, with deferred revenues up £0.60m, as well as the temporary hold on product sales to China pending approval of a key accessory.

Matthew Sassone
Chief Executive Officer

The fundamentals of the business remain strong and we continue to progress our strategy, which can be grouped under the following headings:

- Geographical expansion from a solid UK home market
- Commercial success with a differentiated business model
- Maintaining technology leadership

Geographical expansion

The Board estimates that the global market for hemodynamic monitoring is currently in excess of $200m per annum of which we have approximately a 4% share. In the UK, the Group enjoys a strengthening market leading position, with over 50% of NHS acute care hospitals using its technology and has continued to grow revenues in what many regard as challenging conditions. However, the UK still represents 60% of LiDCO product revenues and the Board has identified a number of key geographies where we feel that we can gain a more significant market share.

The USA is the largest market for hemodynamic monitoring, representing nearly half of the global demand. We believe this market offers the Group the greatest opportunity to grow and have invested in expanding our local commercial presence to 11 people to realise this. Whilst highly competitive, early indications are that the market is responding well to our differentiated pricing approach and we have developed a significant pipeline of potential large users that previously would not have considered changing from their current supplier.

Japan is the second largest hemodynamic monitoring market, and, whilst LiDCO has been present in the market for a number of years, market share has been less than 1% in a market that is historically difficult to penetrate due to challenging registration and reimbursement processes. It is pleasing that during the year we registered our new monitor platform as well as signing a new exclusive distributorship with Merit Medical, which has a well-established commercial infrastructure in the market. This positions the Group well to exploit the local reimbursement for both its minimally invasive and non-invasive technologies and gain greater market share in this established hemodynamic market.

In the rest of the world, we continue to make progress in creating the infrastructure needed to deliver our geographical expansion plans. Our internal resources are focused on managing distributors in the territories with the greatest mid to long-term market opportunities, and we utilise master distribution companies to manage those distributors which we feel will be better served by a more local presence. As part of this more tailored approach to distribution management, we have selected markets within Europe, the Middle East and Asia where we have identified strong growth opportunities and are investing with the right partners to achieve the necessary registrations and promotional activities to further market development and widen the adoption of hemodynamic monitoring.

During the financial year ending January 2018, we invested significantly in additional commercial headcount for the USA, Europe and the Middle East in order to accelerate future revenue growth and gain greater market share outside of our home market. Supplementary to this we also added extra commercial headcount in the UK in order to reinforce our market leading position in our home market.

Commercial focus

During the year the Group invested heavily in the commercial activities of the business in order to improve our sales efforts and the way that we promote ourselves globally. As well as additional headcount, we increased our marketing efforts to raise the profile of LiDCO in our targeted markets. This involved higher profile attendance at key trade shows in the USA, an extensive digital promotional campaign and the launch of new websites.

Tied into our commercial approach is the transition to HUP. This differentiated license agreement model is focused on attracting the larger more established users of hemodynamic monitoring to convert to LiDCO technology, especially but not exclusively in our key growth US market. Although HUP involves customers paying in advance for the services, under IFRS, revenue is only recognised over the period which the payment covers. As the business transitions to HUP we expect to benefit from enhanced cash flow but the deferral of revenue will mean that there is a lag effect on the consolidated comprehensive income statement. As the HUP programme builds, the Board believes that these multi-year license agreements will provide good visibility of future revenues alongside strong cash generation that will greatly enhance the quality of the Group's earnings.

Technology leadership

In July 2017 we launched our striking new slim widescreen monitor platform, LiDCO*unity v2*. It incorporates the core value proposition of combining the full suite of LiDCO technology into one offering. The new monitor brings together LiDCO's non-invasive, minimally invasive and calibrated technologies, enabling continuous hemodynamic monitoring, including monitoring of level of consciousness across the entire clinical pathway in one monitor. In addition, it has a number of new additional features, such as an updated graphical user interface with a more intuitive menu system, internal battery for transportation and new clinical guidance protocols to aid users.

The launch of this new product was one of the factors behind our strong capital sales performance this year.

FINANCIAL REVIEW

Revenues

LiDCO product revenues in the year grew by 2% to £6.87m (2017: £6.76m) with total revenues (including third party products) up 1% to £8.27m (2017: £8.21m). Excluding China, where no sales were recorded in the year as regulatory approval is sought to register a key accessory and the new monitor platform, LiDCO product revenues were up 9% to £6.87m (2017: £6.27m). Total revenues in China were £0.49m in 2017.

As of 31 January 2018, LiDCO had £0.60m (2017: nil) of deferred revenues on the balance sheet arising from the HUP, with a global installed base of 96 monitors generating total annualised license revenue of £0.73m (2017: nil).

Further comment on revenues by territory is provided in the operational review.

Gross profit and margin

The overall gross profit margin from LiDCO product revenues was 73% (2017: 79%) with 3% of the reduction resulting from an increase in the inventory provision of £0.3m due to obsolescence of older products, especially following the launch of the new monitor. The remaining 3% reduction in margin was due to the mix of products sold during the year – there was an increased proportion of lower margin capital sales and a lower proportion of higher margin consumables, which was not offset by the effect of the higher margin HUP business as most of that revenue was deferred until 2018/19. The gross margin achieved on the sale of third party products remained unchanged at 20%. Overall, gross profit reduced by 6% to £5.27m (2017: £5.60m).

Overheads

Overheads before share-based payments increased to £7.38m (2017: £5.54m) as expected, due to the increase in commercial activities and additional headcount primarily in the USA. Personnel-related costs remained at 66% of overheads and the average full time equivalent headcount (excluding non-executive directors) was 49 employees (2017: 42 employees). Share-based payments resulted in a charge of £109,000 (2017: credit £41,000).

Earnings and tax

The Group made an adjusted loss before tax (adjusting for share-based payments of £0.1m and one-off stock write-down of £0.3m) of £1.84m (2017: profit £0.06m). After charging for share-based payments and receiving the benefit of £0.12m of research and development tax credits, the Group made an overall loss for the year of £2.09m (2017: profit £0.19m), equating to a loss per share of 0.86 pence (2017: profit per share 0.09 pence).

Cash flow, borrowings and cash balances

The Group invested in additional headcount and marketing activities as expected and had a net cash outflow in the year before financing activities of £1.67m (2017: inflow £0.52m). HUP contributed £0.3m of positive cash flow in the year (2017: nil). Year-end cash balances amounted to £3.23m (2017: £4.90m). The Group remains debt free.

Property, plant and equipment

There was a net increase in property, plant and equipment in the year of £0.10m. Investment in medical monitors totalled £0.39m comprising HUP monitors, medical monitors placed on long term loan to hospitals in the UK and USA for active use, where the hospital pays for consumables, and monitors for demonstration purposes and clinical trials.

Intangible assets

Expenditure on intangible assets in the period was £0.48m (2017: £0.52m) of which £0.42m (2017: £0.46m) was spent on product development with a further £0.06m (2017: £0.06m) on new product registrations predominantly in overseas territories. Expenditure on product development included the next generation LiDCO*unity* hardware platform, significant improvements to the operating system and the graphical user interface, and amendments to the software to allow additional flexible pricing models.

Strategic report continued

Clear market leader in the UK, used in over 50% of NHS hospitals

Inventory

Inventory reduced to £1.35m in the year (2017: £1.47m). During the year an additional £0.3m was charged to the consolidated comprehensive income statement for inventory provisions and write-offs due to obsolescence of older products, especially following the launch of the new monitor. Traditional rates of inventory turn cannot always be applied to the Group as it 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 315 monitors (2017: 227 monitors) were sold or placed in the year primarily due to the launch of the new monitor platform and the HUP business model. Revenue from capital sales was £1.87m (2017: £1.25m). Recurring revenues decreased by 10% to £4.89m (2017: £5.42m). This decline can be mainly attributed to the transition to HUP and not being able to recognise all the revenue in the year, as well as a reduction in recurring revenue sales in our distributor markets primarily due to China.

REVENUE PERFORMANCE BY PRODUCT AND KEY GEOGRAPHIES

	12 months to January 2018				12 months to January 2017			
	Capital revenue £'000	Recurring revenues £'000	Other £'000	Total £'000	Capital revenue £'000	Recurring revenues £'000	Other £'000	Total £'000
LiDCO sales								
UK	686	3,383	73	4,142	337	3,381	67	3,785
USA	497	849	11	1,357	295	881	7	1,183
Europe	222	272	10	504	267	453	18	738
Rest of World	468	389	5	862	351	703	3	1,057
	1,873	4,893	99	6,865	1,250	5,418	95	6,763
Third party sales								
UK	–	1,402	–	1,402	–	1,449	–	1,449
Total sales	1,873	6,295	99	8,267	1,250	6,867	95	8,212

Capital revenues include the sales of monitors and other equipment to customers. Recurring revenues include sales of consumables including smartcards and sensors, software licenses (including HUP) and service contracts. Japan revenues have now been included within Rest of World.

UK

LiDCO had another strong performance in its home market, building on its market leading position. LiDCO product revenues grew 9% to £4.14m (2017: £3.79m). The growth was driven by strong monitor sales, with capital revenues of £0.69m (2017: £0.34m), up 103% compared with the prior year, boosted by the launch of the Group's new monitor LiDCO*unity v2* increasing volumes and achieving a higher selling price.

The Group has decided to selectively introduce the HUP model to the UK, and, in the year, converted its largest UK customer to this model. The intention is to demonstrate the clinical and economic benefits of expanding the use of hemodynamic monitoring, thereby seeking to re-engage national support and guidelines for wider adoption.

Sales of third party Argon Medical products in the UK declined 3% to £1.40m (2017: £1.45m) as a result of the current pricing pressure climate of the NHS. After year end the Group announced that Merit Medical, which recently acquired the Argon Medical business, has given notice to terminate LiDCO's UK distribution contract. In 2017/18 Argon products contributed £1.4 million to the overall sales of LiDCO at 20% gross margin (compared to 73% margins from LiDCO products). The Group is looking for other distribution opportunities to take advantage of its sales reach in the UK, which it hopes will attract higher margins.

USA

The Board has identified the USA as the market with the greatest opportunities for growth, with the region continuing to develop as the adoption of hemodynamic monitoring continues to expand.

Historically, we sold direct via a small sales team and as a result, market access has been a limiting factor in LiDCO's success in this competitive market. During the year we invested in expanding our local commercial presence to 11 people, as well as launching our differentiated license fee model, HUP. These investments were in place for the second half of the year.

With the benefit of a strong first half performance driven by capital sales, LiDCO's revenues in the USA for the year were up 15% to £1.36m (2017: £1.18m). The focus in the second half of the year was weighted towards the launch of HUP and at the end of January 2018 the Group had 58 HUP monitors under multi-year agreements with annualised recurring revenues in excess of $0.6m.

The feedback from HUP has been extremely positive and the expanded team has been able to develop a significant pipeline of opportunities. Although by targeting the highest users of advanced hemodynamic monitoring the selling cycle remains quite long, we are confident that this is the right strategy to take share in this large and growing market.

Late in 2017, we started to receive royalty income from ICU Medical, which has licensed LiDCO's core algorithm for its new Cogent™ monitor. This product is currently only available in the USA and has been launched to support their substantial existing invasive catheter-based cardiac output monitoring business. We see ICU Medical's approach as symbiotic to our offering, however do not expect forthcoming royalty payments to have a material impact in 2018/19.

Continental Europe

Sales in Europe declined by 32% to £0.50m (2017: £0.74m) with total monitor sales of 52 units compared with 38 units last financial year. This year we experienced strong sales in Spain, Denmark and Switzerland. The latter two countries successfully launching HUP, with the subsequent short term impact to recurring revenues. The rest of the shortfall in recurring revenues in this region can be attributed to weaker consumable sales to the Czech Republic, Slovenia and Serbia, where we are working with our distributors on local activities to support the installed base of business.

We continue to refresh our approach, especially to expand our presence in some of the larger countries in the region as demonstrated by the recent announcement that the Group signed an exclusive three year agreement with Spacelabs Healthcare to distribute its products in France.

As part of the expansion plan, we have invested in a dedicated distribution manager for this region and expect to build a more significant business in 2018/19.

Rest of World

Sales in ROW declined by 18% to £0.86m (2017: £1.06m) due to not being able to sell products to our Chinese distributor whilst the Group registers a key accessory and its new monitor platform, as announced during 2017. Excluding China, sales in ROW actually grew by 52% driven by strong growth in Japan and the Middle East.

During the year, the Group announced the registration of its latest monitor platform and the appointment of Merit Medical Japan, a leading provider of critical care products, as its new exclusive distributor in Japan. Japan is the world's second largest market for advanced hemodynamic monitoring, it has a highly embedded market leader and is historically a conservative market to change. However, in the year, LiDCO experienced strong in-market growth of consumable sales and now, with the combined effects of launching our new monitor and partnering with Merit Medical, the Board believes that LiDCO is well positioned to gain greater market share in this important market.

Following good growth in the Middle East in the previous year, the Group decided to invest in a locally based clinical training resource. Working with our master distributor, we are building a good foundation across multiple countries and have been able to register our products in other key countries such as Saudi Arabia.

As previously announced, during the year, the Group made no sales to its Chinese distributor due to the requirement to gain further regulatory approval in China for a key accessory and the new monitor. LiDCO is continuing to support its distributor in seeking these regulatory approvals, and whilst it is difficult to forecast exactly when this will be achieved, the Group anticipates this will be during 2018. The future prospects for LiDCO in the country remain strong and we do not believe that this temporary delay in our sales effort will reduce our ability to take share in this rapidly developing hemodynamic market in the medium term.

Strategic report continued

New products

The key achievement in the year was the launch of the new monitor platform, LiDCO*unity v2*. This new look monitor platform has received very positive customer feedback and driven the strong capital sales in year. Since launch, at the end of H1, we have shipped over 200 units.

The new monitor hardware is a significant step forward and provides the platform for new developments in the future. In near term we expect incremental software development on the new monitor platform, as we evaluate emerging opportunities to expand from the core LiDCO technology offering.

New business model

Incorporated in the new monitor platform is LiDCO's highly differentiated High Usage Programme (HUP), which has also been a success since its launch.

HUP is a software license fee offering that enables customers to use LiDCO's non-invasive and minimally invasive technology for a fixed flat fee without limiting patient numbers. Until now, all hemodynamic monitoring has been charged on a per patient basis, either through fees or through charging for consumables. The Directors believe that this has limited the use of monitoring, despite multiple studies having demonstrated its significant benefits to patients and reduction of overall healthcare costs. The Directors believe that LiDCO's HUP proposition to the customer is simple and compelling, allowing hospitals to treat more patients for less cost per patient and for a known fixed cost.

Due to the way that LiDCO's algorithm works it's been possible to make LiDCO*unity v2* monitors work, in HUP mode only, without any requirement for dedicated consumables, meaning that we can provide unlimited usage whilst maintaining high gross margins.

Early indications are confirming the Board's belief that this new software licensing model will encourage higher patient use, increase technology adoption and provide greater visibility of future revenue.

Intellectual property

Underpinning our technology and revenue streams is a strong brand and patent position. Patent cover provides us with a protectable product and strong market position. Wherever possible we take the initiative in developing and protecting our advances in physiological signal processing and intelligent graphical user interfaces. During the year, we have submitted further patent applications on novel developments that enhance our core technology.

96
HUP monitors installed in FY18

Outlook

The Group has invested significantly in our commercial operations, ensuring that we have the resources to expand our product sales into the many countries where adoption of advanced hemodynamic monitoring is now occurring. Combined with our new product launches and the introduction of the new high usage pricing model, we are well placed to exploit the large number of opportunities in our pipeline.

As the business continues to win HUP contracts, it will transition towards more multi-year license contracts, providing good visibility of revenues alongside strong cash generation. The Board expects this to greatly enhance the quality of the Group's earnings although accounting for such contracts will have a short-term impact on revenue recognition as the income will typically be spread over the term of the contract as opposed to monitor and consumables revenues being recognised when invoiced. The Board expects the installed base of monitors to continue to grow but the transition to HUP will make comparisons with prior years difficult in the short term, especially in the first half of 2018/19 due to the high value of capital sales in the USA.

Although notice has been given to terminate the distribution agreement for Argon Medical products at the end of September 2018, the Board aims to offset the effect of this by signing additional distribution agreements to take advantage of its sales reach in the UK.

The Board is targeting a year of significant sales growth for LiDCO products in 2018/19 compared with the year just ended and believes that gross profit margins will return to historical levels due to higher recurring revenues. Operational expenses are expected to remain at a similar level to 2017/18.

The Board believes that the Group has good prospects for growth and looks to the future with confidence.

How we create value: our business model

LiDCO is a UK-based manufacturer and supplier of monitoring equipment. 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 either from the sale of dedicated high margin single patient use consumables and/or usage licenses.

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 that 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 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 growing market opportunity – the current market is internally estimated to be $200m. LiDCO's internal calculations have estimated that there is scope for patients and healthcare providers to benefit from a substantial increase in use of hemodynamic monitoring, which could lead to a full market potential of up to $2 billion per annum. Key features of our business model include:

- We generate revenues principally through the sale of single-use consumables and/or the sale of usage licenses into a growing installed base of LiDCO-enabled monitors.
- Our new HUP model is designed to encourage an increase in use of hemodynamic monitoring by leasing monitors and software and allowing healthcare providers to have unrestricted use of the leased assets, rather than paying on a per patient basis.
- HUP contracts are medium-term contracts paid periodically in advance.
- Our consumable products are produced in high volume with low cost manufacturing processes and have a high margin.
- Sales of our products are supported by over 200 clinical studies and an ever-growing body of evidence to satisfy purchaser requirements for clinical and cost-effectiveness.
- We protect our recurring revenue income stream through having patented products with high levels of proprietary intellectual property which 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, with a focus on 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 high margin recurring revenues. Excellence in product design, manufacturing and sales and marketing 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 hemodynamic platform monitors can transition from traditional invasive catheter-based monitoring to LiDCO's minimally or non-invasive monitoring in high-risk patients, thereby reducing complications and lowering costs and length of stay.

Geographical expansion is key to LiDCO's capacity to address the worldwide opportunity for sales of our technology. LiDCO has made recent investments in the USA, Europe and the Middle East to support this initiative. Our sales and distribution model has three elements:

- Direct sales into hospitals in the UK and USA.
- Outside of our two direct markets, we sell via distribution partners. Our depth of margin on consumable sales allows us to attract quality specialist distribution partners on an exclusive and non-exclusive basis, plus where necessary we sometimes work through master distribution organisations to manage our distributors on our behalf.
- Our core technologies are patented and we see licensing our technology as another way to access the market. We have licensed our algorithm on a non-exclusive basis to a major corporate partner in the USA in return for future royalty payments.

Strategic report continued

Measuring our performance: KPIs

The following KPIs are some of the indicators used by management to measure performance during the year:

KEY PERFORMANCE INDICATORS

	Year to January 2018	Year to January 2017
Revenue growth of LiDCO products	2%	14%
Gross profit margin on LiDCO products	73%	79%
LiDCO product revenue per FTE sales employee	£0.51m	£0.68m
% LiDCO product overseas revenue	40%	44%
% of recurring revenue on LiDCO products	71%	80%
Monitors sold/placed in the year	315	227
Installed base of HUP monitors	96	–
Annualised value of HUP contracts	£0.73m	–

During the year the Group expanded its commercial reach, the KPIs reflect this ahead of seeing the full impact of the investment. A number of the KPIs were influenced by the launch of the new monitoring platform with the differentiated HUP pricing model, the short-term impact of having no sales to China and the strong sales performance in the UK.

Business objectives

Our objective is to increase our geographical presence beyond our market leading position in our home UK market. The Directors believe that there are multiple opportunities in the growing hemodynamic monitoring market, with the largest opportunity being in the USA. To realise accelerated revenue growth we have significantly invested in our commercial operations.

We have expanded our presence in the USA and UK as well as Europe and the Middle East in the distribution territories. Due to the high margins of our offering the Board believes that this strategy will result in stronger profitability in the mid-term.

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

The Directors believe that our recent new product launches will enable us to maintain our technology leadership position and our innovative High Usage license model differentiates us further. Further product improvements will look to add incremental features that improve clinical decision making as well as catering for both the expert and novice user. At the foundation of our product development strategy is the objective of enabling our technology to be used along every step of the emergency or elective patient's care pathway.

We will continue to focus on improving our promotional activities, with an increased digital presence as we recognise our customers rely on this for large parts of purchasing or post-purchase support. New websites and on-line services are continuing to be developed that the Board believes will provide improved education for users and highlight the application of our technology in multiple clinical settings. We continue to target specific high risk surgery and critical care patient care pathways with our promotional activities to maximise our return on the greatest opportunities in our direct markets of UK and USA.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group maintains a comprehensive risk register and risk management as an important part of the management process. Regular reviews are undertaken at all levels of the business 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 as follows (these are not listed in order of seriousness):

Employees, forecasting 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 49 people and recognises that its success depends on the calibre of all its employees, retaining their knowledge and ensuring that their productivity is maximised. The Group therefore maintains programmes for appraising, incentivising, training and recruiting 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 and the ability to take corrective actions should a potential risk of underperformance be identified. The Group also pays close attention to safeguarding the health and safety of employees and reports on health and safety matters are regularly reviewed by the Board.

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 Group 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. In addition we work with all of our suppliers to ensure that they meet the latest regulatory requirements. Where the Group uses small volumes of critical components or where there are single sources suppliers, the Group generally maintains appropriate buffer levels of inventory to mitigate any risks and where possible and economic to do so seeks to identify further sources of supply. In addition the Group continues to invest in the maintenance of its manufacturing equipment and review its disaster recovery plans to mitigate any potential interruptions to supply.

Distributors and corporate partnerships

The Group relies on distributors for its sales and marketing activities outside the UK and US. The Company mitigates the risk of distribution/licensing partner underperformance by selecting partners with the requisite resources, skills, access to customers and creditworthiness. In addition, the Group provides ongoing training programmes and closely monitors partner activity to ensure that contracts with them continue to be effective and up to date. The Group seeks to enter appropriate length contracts on reasonable terms with its corporate partners to ensure continuity of business.

Health service budgets and introduction of online/e-procurement

The Group's performance is affected by governments' and hospitals' expenditure and associated budgetary constraints. The Group mitigates this risk by targeting a wide geographical area for its products and reducing its overall reliance on one market as well as by educating customers as to the value proposition of its products. In addition, in its direct markets it offers flexible models for purchasing. The Group has committed and effective distribution partners in many markets and focuses its efforts on sales opportunities where budgets are likely to be available. The introduction by the UK Department of Health of online procurement in September 2017 has increased pricing transparency within the NHS, and the Group aims to mitigate this by continuing to offer products and services with tangible health outcome and economic benefits to its customers. In selected instances the introduction of HUP will benefit both customers and LiDCO by extending the use of hemodynamic monitoring and its associated benefits.

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 seeking to maintain a high level of recurring disposable income which reduces its reliance on the sale of capital equipment to its customers together with, when appropriate the use of shareholders' funds. The introduction of HUP will also mitigate this risk by moving the customer base onto medium term contracts with payments in advance.

New monitor platform launched

The Group has in place a system of internal financial controls to protect against unauthorised use of funds.

Product liability and regulatory compliance

Our products are used in critical applications and are used to assist clinicians' decision-making where the consequences of incorrect use could be extremely serious. The Group, therefore, seeks to ensure that customers are familiar with the use of the Group's products and are properly trained in their use. In addition the Group has insurance cover for certain product liability risks. Further mitigation is achieved by operating within a system of good design, test and manufacturing practices in line with the Group's quality assurance system and compliance with product regulatory requirements and standards relevant to the territories in which its products are sold. The Group is subject to regular audits by or on behalf of regulatory agencies and seeks to keep up to date with evolving regulatory requirements and standards.

Competition

Whilst the number of direct competitors is small, some of these are large companies with greater resources than LiDCO. In addition, new competitor technologies may appear and some clinicians may favour alternative approaches to the use of hemodynamic monitoring. These risks are mitigated by ensuring continued improvement of the Group's products to keep at the forefront of developments and pursuing technology leadership. Through both differentiation from competitors, and continually drawing clinicians' attention to the advantages of our technology, we demonstrate through clinical studies the positive outcome benefits of hemodynamic monitoring using LiDCO solutions. The HUP offers a differentiated pricing model which enables LiDCO to offer solutions not currently offered by its competition.

On behalf of the Board.

Matthew Sassone
Chief Executive Officer

9 April 2018

Board of Directors

Peter Grant Non-executive Chairman

Peter Grant joined the Board as Non-executive Chairman Designate on 6 March 2017 and was elected Chairman of the Board and Audit and Nomination Committees on 10 May 2017. Mr Grant was Chief Executive Officer of Skyepharma PLC from January 2012 to June 2016, until its merger with Vectura Group plc. He joined Skyepharma as Chief Financial Officer in November 2006. Prior to Skyepharma, Mr Grant was Interim Chief Executive Officer of Voice Commerce Group, Group Finance Director at Eurodis Electron PLC, Chief Financial Officer at WorldPay Group plc, Group Chief Executive at Molins PLC and Finance Director at Molins PLC. Prior to this he held a variety of senior commercial, financial and general management roles in the General Electric Company PLC group of companies. He holds an MA in Mathematics from the University of Oxford and is a Chartered Accountant. Mr Grant is Non-executive Chairman and Chair of the Finance and Audit Committee of Microsaic Systems plc, Non-executive Director and Chair of the Audit and Risk Committee at Abzena plc and a Non-executive Director of Labatec Pharma S.A. Mr Grant is Chairman of the Audit and Nomination Committees and a member of the Remuneration Committee.

Matthew Sassone Chief Executive Officer

Mr Sassone took over the role of Chief Executive Officer during August 2015 following the retirement the business' founder Dr Terry O'Brien. He has over 20 years' experience in the medical industry having started his career in sales for Quintiles in 1996. He spent 12 years at Smiths Medical in various sales, marketing and business development roles achieving the role of Regional Managing Director, Northern and Eastern Europe and Russia in 2010. In 2012 he moved to ArjoHuntleigh, a division of the Getinge Group, as Senior Vice President Global Marketing and was subsequently appointed Chief Marketing Officer of Maquet, also a division of Getinge. Mr Sassone has a degree in biochemistry with microbiology. Mr Sassone is a member of the Group's Nomination Committee.

Clinical Advisory Group

Dr Max Jonas

Dr Jonas is a Consultant Intensivist, Senior Lecturer and Tutor in critical care working at Southampton University and Hospitals. He is currently a senior consultant on the 28 bed general intensive care unit and has specific interests in hemodynamics and health technology assessment. 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. He has recently been appointed to the council of governors at UHS and is the clinician in charge of a £25M rebuild of the ICU.

Jill McGregor **Chief Financial Officer**

Ms McGregor joined the Board on 3 July 2017 and is a Chartered Accountant with over 30 years' experience in a variety of financial roles. She has spent the last 14 years in SME medical device companies with a focus on sales growth in the US and German markets. Most recently she spent six years as Chief Financial Officer of Touch Bionics, a UK based provider of upper limb technologies, which was then acquired by Össur. In 2004 Ms McGregor joined Optos plc, a provider of retinal imaging devices, and spent seven years there firstly as Group Financial Controller and then as Vice President and Director of Finance. Prior to that she held a variety of financial roles mainly in the software, brewing and distribution industries.

Phil Cooper **Non-executive Director**

Mr Cooper was appointed in August 2016. He has more than 30 years of experience in the medical device industry and grown businesses through geographical expansion, introduction of new products and concepts and the creation of new customer channels and segments. Having gained experience in sales, sales management and logistics he was appointed UK Marketing Director for the Clinical Division of SCA Mölnlycke and subsequently, on its sale to private equity in 1998, UK Managing Director of Mölnlycke Health Care. In 2001 he joined the Group Executive Board and initiated the Customer Procedure Tray business for Mölnlycke, now the European market leader. From 2005 he focused on the Wound Care Division business and was appointed President in 2007. In his tenure as President from 2007 to 2014, Mölnlycke became the global leader for advanced wound dressings and the market leader in the US and Europe, also entering directly in a number of key Asia-Pacific territories. Since 2014 Mr Cooper has been an independent advisor to a number of health care companies and is a non-executive director of Alesi Surgical where he is a member of the remuneration committee. Mr Cooper is the Chair of the Remuneration Committee and a member of the Audit and Nomination Committees.

Professor Michael Pinsky

Professor Pinsky is Professor of Critical Care Medicine, Bioengineering, Anesthesiology, 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), Master of Critical Care Medicine (MCCM) from the Society for Critical Care Medicine and the SMART lifetime achievement award from Milan. He has a wide range of research interests – among them being the study of heart-lung interactions, hemodynamic monitoring, cardiovascular physiology, sepsis, predictive analytics 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 Terry O'Brien

Thirty-five years executive and consultancy experience within the Healthcare Industry. Co-founder and ex CEO of LiDCO Group Plc. Extensive knowledge of cardiovascular physiology and the application of hemodynamic monitoring technology to improve outcomes in high-risk acute care patients. Education – PhD in Stem Cell Transplantation from Westminster Medical School (now Imperial College, London), Bachelors in Human Biology from Surrey University. Publications & Patents – Author/co-author of a number of peer reviewed articles published in major medical and scientific journals. Co-inventor of 5 patent families granted in major territories (EU, UK, USA and Japan) covering the fields of sensor technology and physiological signal processing and display. Fellow of the Royal Society of Medicine, London.

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 from the Quoted Company Alliance's ("QCA") Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 which it considers to be appropriate and practicable for a company of this size. 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 roles and responsibilities between the Board, Chair, Executive Officers and management are clearly documented and understood. The Board is responsible for the strategic leadership of the Group and regularly assesses the risks and the systems and internal controls that are in place across the Group to monitor and mitigate those risks.

The Board of Directors

The Board currently consists of two executive and two non-executive directors. Biographies of the directors are provided on pages 12 and 13. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer (CEO) and their roles have been set out in writing and agreed by the Board.

The Chairman is responsible for the effective leadership, operation and governance of the Board and its Committees. He ensures that all Directors contribute effectively in the development and implementation of the Company's strategy whilst ensuring that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are determined and challenged. The Chief Executive Officer is responsible for the management of the Group's business and for implementing the Group's strategy.

Each of the Non-Executive Directors is considered independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Chairman was considered independent upon his appointment.

The non-executive directors are Mr Grant (Chairman) and Mr Cooper. Mr Grant was appointed as Chairman Designate and a non-executive director in March 2017 and he succeeded Ms Wallis as Chairman of the Board, Audit and Nomination Committees when she stepped down at the 2017 Annual General Meeting. Mr Grant brings to the Board multiple relevant skills. He has been on the board of listed companies for over 20 years and has relevant industrial experience, having been involved at senior commercial, financial and general management level in electronics, software, manufacturing and pharmaceutical businesses. He brings relevant financial expertise as a Chartered Accountant, chair of three audit committees and substantive experiences as a CFO at listed company board level.

Mr Sassone is the Chief Executive Officer and was appointed in August 2015. He has over 20 years' sales and marketing experience in the medical device industry focusing on Northern and Eastern Europe. He is a member of the Nomination Committee.

Ms McGregor was appointed Chief Financial Officer on 3 July 2017. She is a Chartered Accountant with over 30 years' experience and has spent the last 14 years working in SME medical device companies with a focus on sales growth in the USA and Germany

Mr Cooper was appointed as a non-executive director in August 2016. He has more than 30 years' experience in the medical device industry and has Executive Board experience of more than 17 years, having been involved in senior sales, marketing, logistics and general management positions. He has grown businesses through geographical expansion in North America, Europe and Asia-Pacific; introduction of new products and the creation new customer channels and segments; and grown businesses through mergers and acquisitions. He is Chair of the Remuneration Committee and a member of the Audit and Nomination Committees.

Performance Evaluation

In March 2018 the Board carried out an evaluation of the performance of the Board and its Committees. This involved each director completing an evaluation questionnaire, the results and feedback from which were anonymised and collated into a summary and discussed by the Board This process is similar to that adopted in previous years, but with a more extensive questionnaire and full anonymisation of results, encouraging more open answers. It is the Board's intention to continue to review annually its performance and that of its Committees.

Board processes

There is an approval authority matrix 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 or transactions. The attendance of the individual directors at the Regular Board Meetings and the Audit and Remuneration Committee Meetings during the year were as follows:

Attendance record at Board Meetings and Committees

Name	Position	Regular Board Meetings	Audit Committee	Remuneration Committee
Mr P W Grant[1]	Non-executive Chairman	9 (9)	3 (3)	6 (6)
Mr M G Sassone	Chief Executive Officer	10 (10)	n/a	n/a
Ms J A McGregor[2]	Chief Financial Officer	5 (5)	n/a	n/a
Mr P M Cooper	Non-executive Director	10 (10)	3 (3)	8 (8)
Ms T A Wallis[3]	Non-executive Chairman	4 (4)	1 (1)	5 (5)
Mr P L Clifford[4]	Finance Director	3 (3)	n/a	n/a
Mr I G Brown[5]	Non-executive Director	4 (4)	1 (1)	3 (5)

[1] Mr P W Grant was appointed as Chairman designate and a Non-executive director on 6 March 2017
[2] Ms J A McGregor was appointed on 3 July 2017
[3] Ms T A Wallis resigned on 10 May 2017
[4] Mr P L Clifford resigned on 31 March 2017
[5] Mr I Brown resigned on 10 May 2017

Numbers in brackets denote the total number of meetings that each director was eligible to attend during the year. The Board met to approve the appointments of Mr P W Grant and Ms J A McGregor.

Ms McGregor was appointed Company Secretary on 24 January 2018 however the Board also has access to Prism Cosec, who provide Company Secretarial services and advice to all the directors., The appointment and removal of the Company Secretary 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 year. Mr Sassone retires by rotation and Ms McGregor retires being her first Annual General Meeting since appointment. The retiring directors being eligible, offers themselves for re-election as the forthcoming Annual General Meeting.

Committees of the Board

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

Audit Committee

The members of the Committee are Mr Grant (Chairman) and Mr Cooper. The executive directors and the external auditors attend the meetings by invitation.

The significant issues considered by the Committee were revenue recognition, existence and recoverability of debtors and existence and recoverability of inventory. The committee reviewed board papers on each of these matters, made due enquiries of executive management, and discussed the scope of work and findings of the auditors in these areas. For inventory valuation, the committee paid particular attention to the increased risk of obsolescence of inventory following the launch of the new monitor. During the year, the Committee also asked the new CFO to conduct and document a review of internal controls and systems and identify a plan for addressing any weaknesses found. The Board as a whole reviewed the outcome of this project and, whilst no major issues were identified, the Committee will follow up and ensure that ameliorating actions are taken as appropriate in a timely manner.

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 three times during the year; twice to approve results and once in connection with the planning of year end audits. The Committee considers annually whether the auditors remain independent for the purposes of the audit. This year the fee for non-audit work which the Committee believes was appropriately contracted with the auditors, was £3,000, which is not considered significant compared with the audit fee of £49,500. 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.

Corporate Governance report continued

Remuneration Committee

The members of the Committee are Mr Cooper (Chairman) and Mr Grant. The Committee reviews and sets the remuneration of the executive directors and considers any bonuses to be awarded to them. The Committee decides upon all aspects of share schemes including the approval of share options. The Committee met eight times during the year. The Remuneration Committee met more times than usual during the year due to business relating to the recruitment of the new Chief Financial Officer, reviewing existing share options and the granting of share options to new members of staff. The Remuneration report is included on pages 18 to 23.

Nomination Committee

The members of the Committee are Mr Grant (Chairman), Mr Cooper and Mr Sassone. At the request of the Board, the Committee recommends candidates for new appointments to the Board and advises on all matters relating to such Board appointments. The Nomination Committee did not meet during the year as the Board as a whole met to approve the appointment of Mr Grant and Ms McGregor.

Relations with shareholders

The Group seeks to maintain and enhance good relations with its shareholders. The Group'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 Group 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 Group.

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. The non-executive directors attend the AGM and have the opportunity to attend other meetings with shareholders and do so from time to time or as requested. The Board is kept informed on market views about the Group.

Corporate Social Responsibility statement

The Group 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. 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 Group has been successful in achieving this objective and its products, which are used in hospitals in many parts of the world, 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 Group is of a relatively small size but growing and thus the Group's commitment to Corporate Social Responsibility is dynamic and is reviewed when considered appropriate.

Employees

The Group recognises that an essential part of its continued success is the support and involvement of its employees. Specific actions include:

- 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 Group 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 Group regularly reviews the benefits offered to employees.

Environment

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

- In accordance with the requirements of the Waste Electrical and Electronic Equipment Regulations (WEEE), the Group is registered with the UK Environment Agency as a Small WEEE Producer, and disposes of electrical equipment waste responsibly.
- Where possible, other products are recycled within the Group.
- Paper, cardboard, batteries and printer cartridge recycling collection facilities are in place and are regularly used in the Group's offices.
- Redundant computer equipment is offered to employees or disposed of in accordance with good practice.
- The Group encourages employees to participate in the cycle to work scheme to minimise its carbon footprint.
- The Group 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 Group 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 Group 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 Group 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 Group operates in a highly regulated environment and is subject to regular inspection and audit.
- The Group uses an external specialist to advise on its health and safety policy and practice. Stringent procedures are in place in areas of the Group where risks are apparent, and the Group provides a physically safe working environment and training, protective clothing and equipment as appropriate to all employees.
- 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 Group 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 the Board at the Annual General Meeting

See also 'Relations with Shareholders' in the Corporate Governance Report on page 16.

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.

In respect of year 2017/18, the main decisions the Committee made were:

Bonus

The bonuses for the year were 8% and 3.5% (being 6% applied pro-rata for the period worked) of salary respectively for Mr Sassone and Ms McGregor, which was below the maximum bonus opportunity of 60% of salary. The bonuses paid out related only to performance against personal targets as the corporate targets were not met.

Share options

On 11 April 2017 the EMI options awarded to Matt Sassone, CEO, on 15 June 2015 over 2,197,802 shares and unapproved options over 2,197,802 shares were cancelled. On the same date they were replaced by EMI options of 1,248,262 shares, unapproved options of 949,540 shares and unapproved options of 2,197,802 shares all excercisable at nominal value, i.e. 0.5 pence per Ordinary share with the following conditions:

- share price targets of 12.8 pence and 15 pence for each half of the replacement options, related to the average share price over any 12 month period between date of grant and 15 June 2020 for the 3-year vest options and 15 June 2021 for the 4-year vest options. To the extent that these conditions are not met by these dates, the options lapse. To the extent that they are met by these dates, then the options become and remain exercisable until they lapse on 15 June 2025. The share price would not need to be at the target levels on the day of exercise. In the event of certain circumstances such as a takeover, the share price targets would also be deemed to have been met if the takeover share price equals or exceeds the respective share price targets.

In addition, on 11 April 2017 Matt Sassone was awarded the following options;

- EMI options over 2,200,000 shares, exercisable at nominal value i.e. at 0.5 pence per Ordinary Share. The options were based on a closing midmarket share price on 11 April 2017 of 7.25p and at that date had a gross value of £159,500 which is approximately 78% of the CEO's 2017-18 salary.
- these options will be subject to the following share price conditions, based on the Group's average share price over the three-month period ending on the proposed vesting date, which will be the third anniversary of the grant date:

Average share price	% vesting
Below 8p	0%
8p	15%
Between 8p and 12p	15% to 100% pro rata
12p or higher	100%

Note: the above share price targets have been based on the December 2016 fund raise share price of 6p. Thus achieving the threshold vesting share price of 8p represents share price growth of 33.33%. In the event of certain circumstances such as a takeover, the takeover share price would apply instead of the average over 3 months.

- if vested, the exercise period will be two years i.e. the latest date of exercise will be the fifth anniversary of the grant date. The Group has been advised by its remuneration consultants that it is regarded as best practice to implement a shortened exercise period such as this for these types of share option awards.

On 5 July 2017 Jill McGregor was awarded EMI options over 1,500,000 shares all excercisable at nominal value, i.e. 0.5 pence per Ordinary share. The options were based on a closing midmarket share price on 4 July 2017 of 10.125p and at that date had a gross value of £151,875 which is approximately 100% of the CFO's 2017-18 salary.

These options will be subject to the following share price conditions, based on the Group's average share price over the three-month period ending on the proposed vesting date, which will be the third anniversary of the grant date:

Average share price	% vesting
Below 12p	0%
12p	15%
Between 12p and 16p	15% to 100% pro rata
16p or higher	100%

Salaries

Executive directors' salaries are normally reviewed with effect from 1 February each year. As a result of the review undertaken in February 2018 Mr Sassone's salary was increased by 2% and the salary of Ms McGregor who joined during the year was increased by 1%. As a result of the above changes, the salaries are as follows:

Name	Salary	% increase
Mr M G Sassone	£209,100	2%
Ms J A McGregor	£146,450	1%

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

Bonus

The executive directors' maximum bonus opportunity for 2018/19 remains unaltered and is 60% of base salary and the award for on-target performance is 30%.

Executive Directors Corporate and Personal Bonus Targets 2018-19

On-target Corporate Targets are focused on LiDCO Product Sales, Operating Profit (EBIT) and Cash Flow. The stretch Corporate Targets are purely focused on LiDCO Product Sales.

For the CEO his Personal Objectives are focused upon the continued successful expansion of HUP, in particular in the USA; accelerated adoption of hemodynamic monitoring in the UK; regaining successful market access through registration approval in China and the expansion of strategic alliances. For the CFO, her personal objectives are focused upon developing the Group's processes and infrastructure in the USA to align with the Board's strategic ambitions; ensuring robust plans are put in place for the Group's ERP system to be developed to meet future requirements and to ensure the Group continues to maintain rigorous and up-to-date Corporate Governance procedures.

Further 2018-19 option grant

The Remuneration Committee intends to approve the grant of further share options to the CEO in 2018, as follows:

- Unapproved options over circa 1,000,000 shares, exercisable at nominal value i.e. at 0.5 pence per Ordinary Share. The performance conditions will be determined at the time of award, however the Remuneration Committee's current thinking is that they will follow a similar structure to share options granted to Executive Directors in 2017.

No grant of further share options is currently envisaged for 2018 for the CFO, as she joined the company in July 2017 and was granted options at that time.

Approval to this report will be sought at our Annual General Meeting on 17 May 2018.

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.

Phil Cooper
Chairman of the Remuneration Committee
9 April 2018

Directors’ remuneration report continued

Committee membership

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

Mr P M Cooper (Chairman)
Mr P W Grant

None of the Committee members have any day-to-day involvement in the running of the Group, 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 eight 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 Group. 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 Group 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 other senior employees.

During the year, the Committee received advice from remuneration advisors MM&K on matters relating to the Group’s share option schemes.

Future remuneration policy table

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

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes in policy for 2018/19
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 have been benchmarked against companies of similar size and complexity in similar sectors.		None	M G Sassone £209,100 (increased by 2%) J A McGregor £146,450 (1% increase)
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: M G Sassone £1,189 J A McGregor £489	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 Group'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 include corporate and personal objectives. The principal corporate financial objective on which the directors are currently judged is profitability and LiDCO product sales growth. 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 profitability and sales as well as partly on the achievement of other financial or non-financial objectives which may be relevant for the year in question: – maximum 50% salary for corporate targets – 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 at least 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 2017/18 M G Sassone £159,500 J A McGregor £151,875	The release of an award is dependent upon the individual's continued employment for at least a three-year holding period from the date of grant. Executives only benefit when the share price increases.	No change to policy. Note re 2018/19 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 2018

	Salary and fees £'000	Allowance in lieu of benefits £'000	Benefits £'000	Bonus £'000	Total £'000	2017 £'000
P W Grant[1]	39	–	–	–	39	–
M G Sassone	205	41	1	16	263	260
J A McGregor[2]	85	17	–	5	107	–
P M Cooper	30	–	–	–	30	14
T A Wallis[3]	8	–	–	–	8	39
P L Clifford[4]	37	5	–	–	42	187
I G Brown[5]	5	–	–	–	5	22
Total	409	63	1	21	494	522

Notes

[1] P W Grant's employment and appointment to the Board was with effect from 6 March 2017.
[2] J A McGregor's employment and appointment to the Board was with effect from 3 July 2017.
[3] T A Wallis retired from the Board on 10 May 2017.
[4] P L Clifford retired from the Board on 31 March 2017. He received a sum in lieu of salary for his outstanding holiday entitlement, included with the salary received for the year to that date.
[5] I G Brown retired from the Board on 10 May 2017.

Contracts of service

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

Executive directors

The service contract of Mr Sassone is dated 20 April 2015 and is not set for a specific term but includes a rolling six months' notice period. Ms McGregor has a service contract with the Group dated 28 February 2017 which is not for a specific term but includes a rolling six months' notice period.

Non-executive directors

The non-executive directors do not have service contracts with the Group. 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 Group and the director agree. In keeping with best practice, these appointments are terminable without notice by either party.

The non-executive director appointments are for terms ending on the following dates:

P W Grant	5 March 2020
P M Cooper	7 August 2019

Directors' interests in share options

Options granted to the executive directors are as follows:

Name	Option type	Options at 31 Jan 2017	Date of grant	Options granted during 2017	Exercised during 2017	Lapsed during the year	Options at 31 Jan 2018	Exercise price (p)	Exercisable from	Expiry date
M G Sassone	EMI	2,197,802	Jun-2015			(2,197,802)	–	0.5	Jun-2018	Jun-2025
	Unapproved	2,197,802	Jun-2015			(2,197,802)	–	0.5	Jun-2019	Jun-2025
	EMI	–	Apr-2017	1,248,262			1,248,262	0.5	Jun-2018	Jun-2025
	Unapproved	–	Apr-2017	949,540			949,540	0.5	Jun-2018	Jun-2025
	Unapproved	–	Apr-2017	2,197,802			2,197,802	0.5	Jun-2019	Jun-2025
	EMI	–	Apr-2017	2,200,000			2,200,000	0.5	Apr-2020	Apr-2022
		4,395,604		6,595,604		(4,395,604)	6,595,604			
J A McGregor	EMI	–	Jul-2017	1,500,000			1,500,000	0.5	Jun-2020	Jun-2022
		–		1,500,000			1,500,000			
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
		941,931		–		(800,931)	141,000			
Totals		5,337,535		8,095,604		(5,196,535)	8,236,604			

[1] P L Clifford's options expire on 31 March 2018 being the twelve-month anniversary of his retirement.

The share price was 6.75 pence on 1 February 2017 and 7.00 pence on 31 January 2018, with high and low during the year of 10.25 pence and 5.75 pence respectively.

Pensions

No pension contributions were payable by the Group during the year (2017: £nil).

Shareholder return

The graph below shows the share price performance since January 2013, using the FTSE TechMARK Mediscience Index as a comparator, which the directors consider to be a suitable benchmark index.

Phil Cooper
Chairman of the Remuneration Committee
9 April 2018

Directors' report

The directors of LiDCO Group Plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2018.

Results and dividends

The Group's revenue for the year was £8,267,000 (2016/17: £8,212,000). The Group made a consolidated loss after taxation of £2,093,000 (2016/17: profit £187,000). The directors do not recommend the payment of a dividend (2016/17: £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 page 56.

Directors

The directors of the Group who served during the year are set out below; short biographies are set out on page 12 to 13.

P W Grant	Non-executive Chairman (appointed as a director 10 March 2017)
M G Sassone	Chief Executive Officer
J A McGregor	Chief Financial Officer (appointed 3 July 2017)
P M Cooper	Non-executive Director
T A Wallis	Non-executive Chairman (resigned 10 May 2017)
P L Clifford	Finance Director (resigned 31 March 2017)
I G Brown	Non-executive Director (resigned 10 May 2017)

Mr Sassone retires by rotation and Ms McGregor retires being her first Annual General Meeting since appointment. 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 18.

Directors' interests in shares

The directors who held office at 31 January 2018 had beneficial interests in the ordinary shares of the Group as shown below:

Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2018 Number	31 January 2017 Number
P W Grant	**500,000**	–
M G Sassone	**250,000**	250,000
P M Cooper	**1,666,667**	1,666,667

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

Directors' indemnities and Directors' and Officers' insurance

The Group 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 less than 60 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 2018 the Group 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*
Alto Invest	24,690,971	10.11%
Ingalls & Snyder LLC	19,800,983	8.11%
Quilter Cheviot	18,876,899	7.73%
Joseph Leitch	16,806,183	6.88%
Herald Investment Management	16,666,667	6.83%
P A Brewer	15,884,747	6.51%
James Ede-Golightly	10,913,225	4.47%
R M Greenshields	8,899,550	3.64%
T K O'Brien	8,251,563	3.38%

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

Share not in public hands

In accordance with the terms of the AIM rules and insofar as it is aware, as at 28 February 2018, 1.0% of the Group's AIM securities were not in public hands.

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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group 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 Group'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 Group'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 Group'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

Business activities

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 4 to 11. In addition, note 12 to the financial statements include the Group's policies for managing its capital; its financial risks; 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 through the sales of its smartcards, sensors, software licenses (including HUP) and service contracts which represented 71% of its revenues in the year to 31 January 2018.

Going concern

The Group finances its operations through shareholders' funds. The directors have a reasonable expectation that the Group 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 46 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 Group 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 regular Board meetings. There is an approval authority matrix 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 (93/42/EEC), the US Food & Drug Administration (FDA) and other national regulatory authorities. During the year the Group 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 February 2018.

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 Group to be held on Thursday 17 May 2018 is set out in a separate circular including an explanation of each resolution.

On behalf of the Board

Jill McGregor
Director
9 April 2018

Company Registration Number: 2659005

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

Opinion

Our opinion on the group financial statements is unmodified

We have audited the group financial statements of LiDCO Group Plc for the year ended 31 January 2018 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the group financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the group financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £145,000, which represents 1.75% of the Group's revenue;
- The key audit matter identified was revenue recognition;
- We performed a full scope audit of the financial statements of the parent and its only trading subsidiary LiDCO Limited

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key Audit Matters	How the matter was addressed in the audit
Revenue recognition Revenue is recognised as the fair value of the consideration earned in respect of the sale of goods, license fees and the delivery of services. Where delivery is delayed at the buyer's request under a Bill and Hold arrangement the recognition of revenue requires management to exercise significant judgement in ascertaining whether the significant risks and rewards of ownership have been transferred and whether the criteria for recording a Bill and Hold sale contained within International Accounting Standard (IAS) 18 'Revenue' have been met. Therefore, we identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement (whether due to fraud or error).	Our audit work included, but was not restricted to: • sampling revenue transactions to ensure selected items were delivered • testing bill and hold sales to ensure they are supported by appropriate agreements and that the significant risk and rewards of ownership have been transferred The group's accounting policy on revenue recognition is shown in note 1 to the financial statements and related disclosures are included in note 2. **Key observations** Based on our audit work we are satisfied that the judgements made, and assumptions used by management in accounting for bill and hold sales is appropriate and is supported by the evidence obtained from our testing.

Our application of materiality

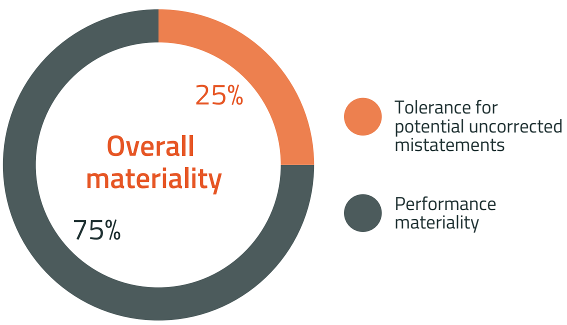
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the group financial statements as a whole to be £145,000, using 1.75% of revenue as a benchmark. This benchmark is considered the most appropriate because revenue best reflects the level of activity of interest to the user of the financial statements.

Materiality for the current year is lower than the level that we determined for the year ended 31 January 2017 as 2% of revenue was used as a benchmark in the prior year.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the group financial statements.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £7,250. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Planning meetings with management to gain an update on the business and trade during the year, as well as leveraging our knowledge of the business from past audits.
- We performed full scope audits for LiDCO Group Plc and LiDCO Limited.
- The operations that were subject to full scope audit procedures representing 100% of consolidated revenues and 100% of the loss before tax.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the group financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the group financial statements

Our objectives are to obtain reasonable assurance about whether the group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matter

We have reported separately on the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2018. That report includes details of the parent company key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit.

Marc Summers, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
9 April 2018

Consolidated comprehensive income statement

For the year ended 31 January 2018

	Note	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Revenue	2	8,267	8,212
Cost of sales		(2,999)	(2,612)
Gross profit		5,268	5,600
Administrative expenses		(7,380)	(5,543)
Operating (loss)/profit, before exceptional cost and share-based payments		(2,112)	57
Share-based payments (charge)/credit		(109)	41
Operating (loss)/profit	3	(2,221)	98
Finance income		3	6
Finance expense		–	(2)
(Loss)/profit before tax		(2,218)	102
Income tax	5	125	85
(Loss)/profit and total comprehensive (expense)/income for the year attributable to equity holders of the parent		(2,093)	187
(Loss)/profit per share (basic and diluted) (pence)	6	(0.86)	0.09

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 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	7	912	809
Intangible assets	8	1,950	1,958
		2,862	2,767
Current assets			
Inventory	9	1,354	1,467
Trade and other receivables	10	3,246	2,684
Current tax		127	93
Cash and cash equivalents		3,227	4,901
		7,954	9,145
Current liabilities			
Trade and other payables	11	(1,816)	(1,504)
Deferred income	11	(668)	(92)
		(2,484)	(1,596)
Net current assets		5,470	7,549
Net assets		8,332	10,316
Equity attributable to equity holders of the parent			
Share capital	13	1,221	1,221
Share premium		30,342	30,342
Merger reserve		8,513	8,513
Retained loss		(31,744)	(29,760)
Total equity		8,332	10,316

The financial statements were approved by the Board of Directors on 9 April 2018.

Jill McGregor
Director

Matthew Sassone
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 2018

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
(Loss)/profit before tax	(2,218)	102
Finance income	(3)	(6)
Finance expense	–	2
Depreciation and amortisation charges	862	722
Share-based payments	109	(41)
Decrease in inventories	113	472
Increase in receivables	(562)	(204)
Increase in payables	312	21
Increase/(decrease) in deferred income	576	(24)
Income tax received	91	161
Net cash (outflow)/inflow from operating activities	(720)	1,205
Cash flows from investing activities		
Purchase of property, plant and equipment	(480)	(168)
Purchase of intangible assets	(477)	(521)
Finance income	3	6
Net cash used in investing activities	(954)	(683)
Net cash (outflow)/inflow before financing	(1,674)	522
Cash flows from financing activities		
Finance expense	–	(2)
Issue of ordinary share capital (net of issue costs)	–	2,794
Net cash outflow from financing activities	–	2,792
Net (decrease)/increase in cash and cash equivalents	(1,674)	3,314
Opening cash and cash equivalents	4,901	1,587
Closing cash and cash equivalents	3,227	4,901

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 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained loss £'000	Total equity £'000
At 1 February 2016	971	27,798	8,513	(29,906)	7,376
Issue of share capital (net of issue costs)	250	2,544	–	–	2,794
Share-based payment credit	–	–	–	(41)	(41)
Transactions with owners	250	2,544	–	(41)	2,753
Profit and total comprehensive income for the year	–	–	–	187	187
At 31 January 2017	1,221	30,342	8,513	(29,760)	10,316
Share-based payment expense	–	–	–	109	109
Transactions with owners	–	–	–	109	109
Loss and total comprehensive expense for the year	–	–	–	(2,093)	(2,093)
At 31 January 2018	**1,221**	**30,342**	**8,513**	**(31,744)**	**8,332**

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 2018

1 Principal accounting policies

The Group's principal activity is the development, manufacture and sale of hemodynamic 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 57. 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 2018.

Standards issued but not yet effective

The following is a list of standards that are in issue but are not effective in the year to 31 January 2018.

- IFRS 9: Financial Instruments – effective 1 January 2018
- IFRS 15: Revenue from contracts with customers – effective 1 January 2018

The following is a list of standards that are not issue in the year to 31 January 2018.

- IFRS 16: Leases – effective for periods beginning on or after 1 January 2019 (endorsed 31 October 2017)

IFRS 9 Financial Instruments will substantially change the classification and measurement of financial instruments. The new standard requires impairments to be based on a forward-looking model, changes the approach to hedging financial exposures and related documentation, changes the recognition of certain fair value changes and amends disclosure requirements.

The impairment of financial assets, including trade and lease receivables will be assessed using an expected credit loss model rather the current incurred loss model. The Group does not expect a significant impact to our provision for doubtful debts or impairments from this change. The Group does not have any hedge accounting.

The Group will implement the new standard on 1 February 2018 and will apply the retrospective method for the year to 1 January 2018.

IFRS 15 Revenue from contracts with customers amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard replaces IAS 18 Revenue and related interpretations.

The Group's capital sales and sale of goods are derived from products where control transfers to our customers and our performance obligation are satisfied at the time of shipment to or receipt of the products by the customer. The Group does not expect IFRS 15 to significantly change the timing or amount of revenue recognised under these arrangements.

The Group's software license agreements are assessed on a case by case basis, taking into account the terms of the contract, the fair value and the estimated residual life of the product to ascertain if the contract contains a lease. The Group does not expect IFRS 15 to significantly change the timing or amount of revenue recognised under these arrangements.

The Group's license fee agreements consist of royalty income from the out-licensing of intellectual property which is recognised as earned when 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. The Group does not expect IFRS 15 to significantly change the timing or amount of revenue recognised under these arrangements.

IFRS 16 should be applied for annual reporting periods beginning on or after 1 January 2019 and for lessees significantly revises the way that entities account for leases. It will result in leases for which the Group is a lessee being accounted for on-balance sheet recognising a new category of right-of-use asset and liability based on discounted future lease payments. The current undiscounted operating lease commitments of £0.67m as of 31 January 2018, disclosed in note 17, provide, subject to the provision of the standard, an indicator of the impact of the implementation of IFRS 16 on the Group's consolidate balance sheet. The impact of the results of the group are expected to be material with these assets being depreciated over their useful lives and the lease payment charge being apportioned between a finance charge and capital repayment.

Upon adoption of the new standard, a portion of the annual operating lease costs, which is currently recognised as an administrative expense will be recorded as an interest expense. In addition, the portion of the annual lease payments recognised in the cash flow statement as a reduction of lease liability will be recognised as an outflow of financing activities, which are currently recognised as an outflow from operating activities.

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 4 to 11. 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 smartcards, sensors, software licenses (including HUP) and service contracts which represented 71% of its revenues in the year to 31 January 2018.

The Group currently finances its operations through shareholders' funds. The directors have a reasonable expectation that the Group 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 2018. 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.

Capital sales

Capital sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of monitors including peripherals to entities outside the consolidated entity. Capital sales revenue is recognised at a point in time when the risks and rewards of ownership of the goods passes to the customer, which is normally upon shipment and when the amount of revenue can be measure reliably.

Where shipment 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 probably that shipment will be made, the goods are on hand and ready for delivery and the buyer acknowledges the deferred delivery and usual payment terms apply.

Recurring revenues

Software License Fees (HUP Agreements).

Arrangements between LiDCO and its customers are assessed on a case by case basis, taking into account the terms of the contract, the fair value and the estimated residual life of the product to ascertain if the contract contains a lease. See leases on page 37.

Sale of goods

Sale of goods comprises revenue earned (net of returns, discounts and allowances) from the provision of consumables including smartcards and sensors to entities outside the consolidated entity.

Sale of goods revenue is recognised at a point in time when the risks and rewards of ownership of the goods passes to the customer, which is normally upon shipment and when the amount of revenue can be measure reliably.

Where shipment 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 probably that shipment will be made, the goods are on hand and ready for delivery and the buyer acknowledges the deferred delivery and usual payment terms apply.

Notes to the financial statements continued

License fees
The Group's license fee agreements consist of royalty income from the out-licensing of intellectual property which is recognised as earned when 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.

Service Contracts
Revenue from the provision of services is recognised over the period in which the service is provided.

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

Other income
Other income is brought to account when the Group's right to receive income is established and the amount can be reliably measured.

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 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	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% per annum

Medical monitors include equipment on long term loan to hospitals for active use where the hospital pays for smartcards, sensors, software licenses (including HUP). Also included in this category is equipment for demonstration purposes, clinical trials and testing. Such monitors remain the Group's property, under its control and can be substituted at its discretion.

Leases

Group as a lessor

Arrangements between LiDCO and its customers are assessed on a case by case basis, taking into account the terms of the contract, the fair value and the estimated residual life of the product.

Finance leases

Arrangements between LiDCO and the customer where substantially all of the risks and rewards of ownership have transferred to the customer are classified as finance leases. The Group makes this assessment at the inception of the lease or at the date of contract extension, on the basis of one or more of the following factors;

- the lease transfers ownership of the product to the customer at end of lease term
- the customer has the right to buy the product at a price that is expected to be sufficiently lower than the fair value and it is reasonably certain that they will exercise that option
- the lease term is for the major economic life of the underlying asset even if title is not transferred
- the present value of the lease payments amounts to at least substantially all of the fair value of the asset
- the customer has the ability to continue the lease for a secondary period at a rent that is substantially lower than the market rent.

An amount equal to the fair value of the asset, or if lower, the present value of the minimum lease payments is recognised as revenue in the income statement and as an asset in balance sheet. Finance income is recognised on the basis of a constant monthly rate of return on the net investment in the finance lease which is equivalent to the incremental borrowing rate charged to the Group.

Operating leases

Arrangements between LiDCO and the customer where substantially all of the risks and rewards of ownership have not transferred to the customer are classified as operating leases. The Group makes this assessment based on the following factors;

- Ownership of the asset does not transfer to the customer at the end of the lease term and there is no advantageous acquisition option for the customer at the end of the lease.
- The estimated useful life of the asset is considered to be five years which is in excess of the lease term; and/or
- At the inception of the lease the present value of the minimum lease payments is significantly less than the fair value of the asset.

The Group's HUP contracts typically commit the customer to pay a fixed annual sum and these payments from operating leases are recognised monthly in the income statement on a straight-line basis over the lease term.

Group as a lessee

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.

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.

Notes to the financial statements continued

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 consolidated comprehensive income 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.

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

Bill and Hold sales

The Group recognises Bill and Hold sales where delivery is delayed at the buyer's 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.

Notes to the financial statements continued

2 Revenue and segmental information

The Group has one reportable segment – the supply of monitors, consumables and support services associated with or complementary to the use of the LiDCO's hemodynamic 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 2018 £'000	Year ended 31 January 2017 £'000
UK – LiDCO products	4,142	3,785
UK – third party products	1,402	1,449
USA	1,357	1,183
Continental Europe	504	738
Rest of World	862	1,057
	8,267	8,212
Result		
UK – LiDCO products	1,769	2,015
UK – third party products	230	240
USA	(1,169)	11
Continental Europe	88	304
Rest of World	276	609
Total	1,194	3,179
Unallocated costs	(3,415)	(3,081)
(Loss)/profit from operations	(2,221)	98

Products and services

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Capital revenue	1,873	1,250
Recurring revenue	4,893	5,418
Distributed third party consumables	1,402	1,449
Total product revenue	8,168	8,117
Other income	99	95
	8,267	8,212

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. Service contract income is included within recurring revenue.

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

Material customers

During the year there were no customers that accounted for more than 10% of the Group's total revenue (2017: nil).

3 (Loss)/profit from operations

The (loss)/profit on operations before taxation is stated after:

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
Fees payable to the Company auditors:		
– Audit of the Group accounts	20	20
– Audit of the Company's subsidiaries	30	28
– Audit-related assurance services*	3	10
Research and development expenditure	106	139
Depreciation of property, plant and equipment	377	290
Amortisation of intangible assets	485	432
Operating leases – rental of land and buildings	168	151
Operating leases – motor vehicles and other	115	117
Write down of inventories	267	28
Exchange rate (losses)/gains	(78)	27

The cost of goods sold during the year amounted to £2,200,000 (2017: £2,143,000).

*Audit-related assurance services comprise £3,000 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 2018 £'000	Year ended 31 January 2017 £'000
Wages and salaries	3,454	2,673
Social security costs	342	253
Pension contributions	107	97
Share-based payments charge/(credit)	109	(41)
	4,012	2,982

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

	2018 Number	2017 Number
Production	10	12
Sales	25	17
Administration	16	15
	51	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 18 to 23 and forms part of these accounts.

	2018 £'000	2017 £'000
Short-term employee benefits	494	522
Employer's NI	68	72
Share-based payments charge/(credit)	75	(92)
	637	502

Notes to the financial statements continued

5 Tax on (loss)/profit on ordinary activities

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

	Year ended 31 January 2018 £'000	Year ended 31 January 2017 £'000
United Kingdom corporation tax at 19.17% (2017: 20.00%)	–	–
United States income taxes	2	8
Research and development expenditure tax credits – current year	(127)	(93)
– prior year	–	–
Total tax	(125)	(85)

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:

(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 19.17% (2017: 20.00%)	(425)	20
Effect of:		
Expenses not deductible for tax purposes	6	4
Capital allowances in excess of depreciation charge for year	72	(34)
United States income taxes	2	8
Increase in unused tax loses	254	–
Other temporary timing differences	21	(9)
Additional deduction for research and development expenditure	(95)	(109)
Losses surrendered for research and development tax credit	167	128
Research and development expenditure tax credits – current year	(127)	(93)
Total tax income	(125)	(85)

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 £127,000 (2017: £93,000) represents 33% (2017: 22%) 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 2018 £'000	Year ended 31 January 2017 £'000
Unused losses (available indefinitely)	25,473	24,149
Temporary differences (available indefinitely)	99	(9)
	25,572	24,140

The related deferred tax asset (calculated at 17%) of £4.2m (2017: £4.1m calculated at 17%) which will be recognised in the accounts when the trend of profits has been established.

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 2018 £'000	Year ended 31 January 2017 £'000
(Loss)/profit after tax for the financial year	(2,093)	187

	Number ('000)	Number ('000)
Weighted average number of ordinary shares	244,175	198,969
(Loss)/earnings per share – basic and diluted (p)	(0.86)	0.09

7 Property, plant & equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Medical monitors £'000	Total £'000
Cost						
At 1 February 2016	570	485	118	700	1,975	3,848
Additions	–	7	12	9	140	168
Retirements	(21)	–	(47)	(33)	–	(101)
At 31 January 2017	549	492	83	676	2,115	3,915
Additions	–	6	26	54	394	480
Retirements	–	–	(13)	–	–	(13)
At 31 January 2018	**549**	**498**	**96**	**730**	**2,509**	**4,382**
Accumulated depreciation						
At 1 February 2016	561	445	100	632	1,179	2,917
Charge for the year	5	17	6	48	214	290
Retirements	(21)	–	(47)	(33)	–	(101)
At 31 January 2017	545	462	59	647	1,393	3,106
Charge for the year	1	13	11	35	317	377
Retirements	–	–	(13)	–	–	(13)
At 31 January 2018	**546**	**475**	**57**	**682**	**1,710**	**3,470**
Carrying amount at 31 January 2018	**3**	**23**	**39**	**48**	**799**	**912**
Carrying amount at 31 January 2017	4	30	24	29	722	809

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 smartcards, sensors, software licenses (including HUP). Also included in this category is equipment for demonstration purposes, clinical trials and testing.

Notes to the financial statements continued

8 Intangible assets

	Clinical trials £'000	Product registration £'000	Product development £'000	Total £'000
Cost				
At 1 February 2016	283	1,092	5,499	6,874
Additions	–	60	461	521
At 31 January 2017	283	1,152	5,960	7,395
Additions	–	57	420	477
At 31 January 2018	**283**	**1,209**	**6,380**	**7,872**
Accumulated amortisation				
At 1 February 2016	255	831	3,919	5,005
Charge for the year	28	71	333	432
At 31 January 2017	283	902	4,252	5,437
Charge for the year	–	73	412	485
At 31 January 2018	**283**	**975**	**4,664**	**5,922**
Carrying amount at 31 January 2018	**–**	**234**	**1,716**	**1,950**
Carrying amount at 31 January 2017	–	250	1,708	1,958

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 £318,000 (2017: £316,000), and externally purchased assets of £159,000 (2017: £205,000). The rates of amortisation are shown in note 1.

9 Inventory

	2018 £'000	2017 £'000
Raw materials and consumables	**388**	277
Finished goods and goods for resale	**966**	1,190
	1,354	1,467

10 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	2,927	2,505
Other receivables	148	92
Prepayments	171	87
	3,246	2,684

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 2018, trade receivables of £2.08m (2017: £1.76m) were within their agreed payment terms. In addition, some of the unimpaired trade receivables were past due as at the reporting date. The age of trade receivables past due but not impaired was as follows:

	2018 £'000	2017 £'000
Not more than three months	268	429
More than three months but not more than six months	97	54
More than six months but not more than one year	54	42
More than one year	430	16
	849	541

Included in trade receivables past due, more than one year, but not impaired, is a balance due from a distributor which is making payments in accordance with an agreed payment plan and therefore is not considered impaired. Movements in Group provisions for impairment of trade receivables are as follows, which are included within administrative expenses in the income statement.

	2018 £'000	2017 £'000
Opening balance	66	20
Provision for receivables impairment	29	60
Receivables written off in year	(27)	(14)
Closing balance	68	66

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

Notes to the financial statements continued

11 Current liabilities

	2018 £'000	2017 £'000
Trade payables	957	828
Social security and other taxes	261	274
Accruals and other creditors	598	402
Deferred income	668	92
	2,484	1,596

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

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) and equity (as disclosed in the consolidated statement of changes in shareholders' equity) attributable to the shareholders of the parent.

Financial risks

The Group's financial instruments comprise cash and liquid resources 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 and other receivables is £3,075,000 (2017: £2,597,000).

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

Liquidity risk

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

Liquidity risk analysis

Liquidity needs are monitored on a month-to-month basis. The Group maintains cash and marketable securities to meet its liquidity requirements.

As at 31 January 2018, the Group's current contractual financial liabilities are summarised below:

	2018 within 6 months £'000	2018 6 to 12 months £'000	2017 within 6 months £'000	2017 6 to 12 months £'000
Trade payables	957	–	828	–
	957	–	828	–

There are no non-current trade payables.

Market risks

Interest rate risk

The Group currently finances its operations through shareholders' funds and has no borrowings at present.

Currency risk

The Group manages currency risk by assessing the net exposure in each non-Sterling currency in which exposure arises. The only 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 offset by US dollar receivables from sales.

Group interest rate profile

Financial assets at 31 January 2018	Floating rate Cash current bank accounts £'000	Deposit and reserve account £'000	Total £'000
Currency			
Sterling	2,587	538	3,125
US dollars	100	–	100
Euro	2	–	2
	2,689	538	3,227

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.

Current assets	2018 £'000	2017 £'000
Loans and receivables:		
– Trade and other receivables	3,075	2,597
– Cash and cash equivalents	3,227	4,901
	6,302	7,498

Current liabilities	2018 £'000	2017 £'000
Trade payables and other short term financial liabilities	1,218	1,102
	1,218	1,102

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 2018 £'000	2017 £'000
Trade and other receivables	225	126
Cash and cash equivalents	100	133
Trade and other payables	(177)	(54)
	148	205

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 continued

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	
	2018 £'000	2017 £'000
Currency fluctuation	9%	20%

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

	US dollars	
	2018 £'000	2017 £'000
Net result for the year	(21)	(23)
Equity	(21)	(23)

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

	US dollars	
	2018 £'000	2017 £'000
Net result for the year	21	23
Equity	21	23

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

Issued and fully paid – ordinary shares of 0.5 pence each	2018 Number of shares '000	2017 Number of shares '000
At the beginning of the year	244,175	194,175
Issued for cash	–	50,000
At the end of the year	244,175	244,175

	£'000	£'000
At the beginning of the year	1,221	971
Issued for cash	–	250
At the end of the year	1,221	1,221

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 at least 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. At the discretion of the Group the options maybe settled in cash. Where share options are awarded, the fair value of the options at the date of grant is calculated using appropriate pricing models and is charged to the income statement over the vesting period.

	Number	2018 Weighted average exercise price (p)	Number	2017 Weight average exercise price (p)
Outstanding at the beginning of the year	12,051,715	7.7	11,752,084	9.7
Issued in the year	9,545,604	1.1	2,732,795	7.4
Forfeited during the year	(5,498,141)	3.8	(2,433,164)	16.9
Exercised during the year	–	–	–	–
Outstanding at the end of the year	16,099,178	5.2	12,051,715	7.7
Exercisable at the end of the year	3,620,779	14.0	3,708,803	10.5

Fair value of standard options with no performance conditions issued during the year 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:

	2018	2017
Weighted average shares price (p)	6.75	7.4
Weighted average exercise price (p)	6.75	7.4
Expected volatility	48.1%	49%
Expected life (years)	3.5	3.5
Risk free rate	0.22%	0.6%
Expected dividend yield	–	–

No options were exercised during the year or the prior year.

For options granted during the year with performance conditions the share price performance conditions are market conditions which are incorporated in the calculation of the fair value at the grant date. Monte-Carlo simulations were used to estimate the fair value with the following assumption:

	Unapproved replacement	Unapproved replacement	EMI option replacement	EMI option new	EMI option new	Unapproved new
Number of shares	2,197,802	949,540	1,248,262	2,200,000	1,500,000	600,000
Weighted average share price (p)	7.25	7.25	7.25	7.25	10.25	9.25
Weighted average exercise price (p)	0.50	0.50	0.50	0.50	0.50	0.50
Expected volatility	47.9%	48.0%	48.0%	48.0%	49.9%	47.0%
Expected life (years)	4.2	3.5	3.5	3.5	3.5	3.5
Risk free rate	0.25%	0.19%	0.19%	0.19%	0.40%	0.54%
Expected dividend yield	0%	0%	0%	0%	0%	0%

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 0.5p and 21.5p per share and a weighted average remaining contractual life of 8.0 years.

Notes to the financial statements continued

15 Capital commitments

At 31 January 2018 the Group had placed forward orders for the purchase of monitors, monitor components and consumables for inventory to the value of £931,000 (2017: £621,000). Delivery of these orders is scheduled between February 2018 and September 2018.

16 Contingent liabilities

There were no contingent liabilities at 31 January 2018 or 31 January 2017.

17 Leasing commitments

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

Group	2018 Land and buildings £'000	Other £'000	2017 Land and buildings £'000	Other £'000
In one year or less	140	101	140	53
Between one and five years	303	128	443	43
	443	229	583	96

18 Related party transactions

There were no related party transactions for the year ended 31 January 2018. During the prior year ended 31 January 2017 during the fund raise Ms Wallis, Mr Sassone and Mr Cooper subscribed for a total of 2,083,333 ordinary shares at a total subscription price of £125,000. Other than as noted above or within the directors' remuneration report, no contracts of significance 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

Opinion

Our opinion on the parent company financial statements is unmodified

We have audited the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2018 which comprise the balance sheet, the statement of changes in shareholders' equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 January 2018;
- 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the group financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the parent company financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £99,000, which represents 0.5% of the company's gross assets;
- The key audit matter identified was the recoverability of investments in LiDCO Limited.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key Audit Matters	How the matter was addressed in the audit
The recoverability of the investment in LiDCO Limited The Company's investment in its subsidiary undertaking, LiDCO Limited, is held at cost less provision for impairment. During the year, LiDCO Limited made a net loss which is an indicator of impairment. We therefore identified the recoverability of the investment in LiDCO Limited as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Evaluate management's assessment of the recoverability of the investment in LiDCO Limited • Testing the integrity of the data used in the impairment model by agreeing a sample of inputs to source data and assessing the appropriateness of key assumptions (such as discount rate and forecast results) The parent company's accounting policy on the carrying value of investments is shown in note 1 to the financial statements and related disclosures are included in note 2. **Key observations** Based on our audit work we are satisfied that the judgements made, and assumptions used by management in assessing the recoverability of the investment in LiDCO Limited is appropriate and is supported by the evidence obtained from our testing.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the parent company financial statements as a whole to be £99,000, which is 0.5% of gross assets. This benchmark is considered the most appropriate because the Company is a holding company and does not trade.

Materiality for the current year is the same as the level that we determined for the year ended 31 January 2017.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

We determined the threshold at which we will communicate misstatements to the audit committee to be £4,950. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the company's business, its environment and risk profile. We performed a full scope audit of the Company.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the parent company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the parent company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the parent company financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 25, 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matter

We have reported separately on the group financial statements of LiDCO Group Plc for the year ended 31 January 2018. That report includes details of the group key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our group audit. The opinion in that report is unqualified.

Marc Summers, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
9 April 2018

Company balance sheet

At 31 January 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Investments	2	**17,199**	16,849
		17,199	16,849
Current assets			
Cash at bank and in hand		**2,577**	2,924
		2,577	2,924
Net assets		**19,776**	19,773
Capital and reserves			
Called up share capital	3	**1,221**	1,221
Share premium account		**30,342**	30,342
Profit and loss account		**(11,787)**	(11,790)
Shareholders' funds		**19,776**	19,773

The profit for the year of the Company was £3,000 (2017: £nil).

The financial statements were approved by the Board of Directors and authorised for issue on 9 April 2018.

Jill McGregor
Director

Matthew Sassone
Director

Company statement of changes in shareholders' equity

For the year ended 31 January 2018

	Share capital £'000	Share premium £'000	Retained loss £'000	Total equity £'000
At 1 February 2016	971	27,798	(11,790)	16,979
Issue of share capital (net of issue costs)	250	2,544	–	2,794
Transaction with owners	250	2,544	–	2,794
Result for the year	–	–	–	–
At 31 January 2017	1,221	30,342	(11,790)	19,773
Result for the year	–	–	3	3
At 31 January 2018	**1,221**	**30,342**	**(11,787)**	**19,776**

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

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 2018

1 Principal accounting policies

Basis of preparation

These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 – 'The Reduced Disclosure Framework' (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated.

The financial statements have been prepared on a historical cost basis except for the revaluation of certain properties and financial instruments.

The financial statements are presented in Sterling (£) and have been presented in round thousands (£'000).

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirement of paragraphs 45 and 46-52 of IFRS 2 Shared based payment,
b) the requirement of IFRS 7 Financial Instruments: Disclosures,
c) the requirements in paragraphs 91-99 of IFRS 13 Fair Value Measurement,
d) the requirements in paragraphs 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and (iii) paragraph 118(e) of IAS 38 Intangible Assets,
e) the requirement of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements,
f) the requirements of IAS 7 Statement of Cash Flows,
g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Change in Account Estimates and Errors,
h) the requirements of paragraph 17 of IAS 24 Related Party Disclosure,
i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and,
j) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

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 4 to 11. 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 smartcards, sensors, software licenses (including HUP) and service contracts which represented 71% of its revenues in the year to 31 January 2018.

The Company currently finances its operations through shareholders' funds. 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 which comprise investments in share capital and inter-company loan balances are stated at cost less any provisions for impairment in value. At each balance sheet date the Company reviews the carrying amount of the investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of the investments value in use and its fair value less costs to sell. Value in use is calculated using cash flow projections for the investments discounted at the Company's cost of capital.

If the recoverable amount of the investment is estimated to be less than its carrying amount, the carrying amount of the investment is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss in the Comprehensive Income statement, unless the relevant investment is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Judgements and keys sources of estimation uncertainty

The Company has funded the trading activities of its principal subsidiaries by the way of inter-company loans. The amounts advanced did not have any specific terms relating to their payment, were unsecured and were interest free. In light of the above, the Board have had to determine whether such loan balances should be accounted for as loans and receivables in accordance with IAS 39, 'Financial Instruments: Measurement', or whether it represents an interest in a subsidiary which is outside the scope of IAS39 and accounted for in accordance with IAS27, 'Separate Financial Statements'.

The Board have concluded that, in substance, the loans represent an interest in a subsidiary as the funding provided is considered to provide the subsidiary with a long term source of capital. Therefore the loans are accounted for in accordance with IAS27 and are carried at their historical cost less provision for impairment, if any.

Notes to the financial statements continued

The carrying amount of these loans are tested for impairment if events occur which may indicate that these assets are impaired. The carrying value of these loans are compared to the value in use of the relevant subsidiary which is also the cash generating unit (CGU). The estimation of the value in use of a CGU requires the Group to make an estimate of the expected future cash flows from the CGU and also the selection of a suitable pre-tax discount rate to calculate the present value of those cash flows.

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 consolidated comprehensive income statement.

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. 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.

2 Investments

Company	Shares in subsidiary undertakings 2018 £000	Shares in subsidiary undertakings 2017 £'000
Cost and net book value		
Amount due from subsidiary	**17,199**	16,849

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

The registered office of both LiDCO Limited and Cassette Analytical Systems Limited is 16 Orsman Road, London, N1 5QJ.

3 Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
244,174,908 ordinary shares of 0.5p each (2017: 244,174,908 ordinary shares)	**1,221**	1,221

4 Result 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 profit for the year of the Company was £3,000 (2017: £nil).

5 Related party transactions

There were no related party transactions for the year ended 31 January 2018. During the prior year ended 31 January 2017 during the fund raise Ms Wallis, Mr Sassone and Mr Cooper subscribed for a total of 2,083,333 ordinary shares at a total subscription price of £125,000. Other than as noted above or within the directors' remuneration report, no contracts of significance were existing or entered into by the Group or its subsidiaries in which the directors had a material interest.

The Company has taken advantage of the exemption in Financial Reporting Standard 101 paragraph 8(k) from disclosing related party transactions between the Company and its subsidiary undertakings.

Company information

Company registration number:
2659005

Registered office:

16 Orsman Road
London
N1 5QJ

Company website:
www.lidco.com

Directors and Secretary:

Mr P W Grant	Non-executive Director
Mr M G Sassone	Chief Executive Officer
Ms J A McGregor	Chief Financial Officer
Mr P M Cooper	Non-executive Director
Ms J A McGregor	Company Secretary

Advisers to the Company

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Registered Auditors
Chartered Accountants
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EC2A 1AG

Registrar:
Link Asset Services
The Registry
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