14 March 2017

Surgical Innovations Group plc
("SI", "the Company" or the "Group")

Final results for the year ended 31 December 2016

Surgical Innovations Group plc (AIM: SUN), the designer and manufacturer of innovative medical technology for minimally invasive surgery, reports strong results for the year ended 31 December 2016. In a breakout year for the Group, results were ahead of market expectations and the balance sheet moved to a healthy net cash position with ample unutilised banking facilities.

Highlights:

- Healthy export-led revenue growth – up 11% to £6.09m (2015: £5.47m)
- Gross margins restored to within target range to 33.8% (2015: 14.0 %)
- Adjusted EBITDA of £1.41m (2015: £0.24m)
- Operating profit of £0.47m (2015: operating loss of £1.98m) at operating margin of 7.7%
- Profit before tax of £0.28m (2015: loss of £2.13m)
- Earnings per share of 0.15 pence (2015: loss per share of 0.42 pence)
- Strong cash generation from operating activities of £2.85m (2015: £1.51m)
- £1m loan notes converted to equity in December 2016
- Moved to net cash position of £0.72m (2015: net debt of £2.26m)
- New products in pipeline for 2017, including those acquired through Surgical Dynamics in Nov 2016

Executive Chairman, Nigel Rogers, said: *"Management have now demonstrated a track record of financial success, and built a robust platform for future development of the business.*

"Recent regulatory changes have increased barriers for new market entrants, and strengthened the market position of those with the skills and experience to meet more stringent requirements.

"Our core market in laparoscopic surgery is not completely immune from the effects of economic uncertainty, but health spending in this area in the UK and other developed markets is forecast to continue to grow ahead of inflation. We aim to outperform the sector as a whole by increasing market penetration through opening new territories and introducing additional products and ranges, both organically and through additional partnerships and carefully selected acquisition activity."

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No.596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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Chairman's Statement

The Group is pleased to report strong results in 2016, with profitability ahead of market year-end expectations. The Group returned to profitability at the pre-tax level and increased cash generation, resulting in a positive cash position at the year-end.

Robust top line growth has been achieved by leveraging the strong relationships with distributors, as well as fostering associations in new territories. Gross margins improved considerably in the year, following a strong second half in 2015. This resulted from a return to normal manufacturing output as stock levels regularised. Cost control has been a key focus, enabling the business to deliver improved profitability and cash generation during the year.

In the final quarter of the year, the bank debt put in place at the end of 2014 was repaid. This was considerably earlier than the November 2017 due date. The loan note holders also converted the notes into shares during this period. The strong cash generation of the Group meant that the business closed the financial year with net cash of £0.72m (2015: net debt of £2.26m).

Brand identity, innovation and global reach

The SI Brand was further enhanced in the year by the much-anticipated launch of the Yelloport™ Elite range, a new port access system utilising universal seal technology giving significantly improved performance for surgeons and theatre staff. The Group remains focused on innovation and development of its portfolio of products, brand recognition and the identification of as yet unmet clinical needs in order to drive the product roadmap effectively.

The distribution network has continued to expand in 2016 with the addition of five new territories. There are more potential distributors in the pipeline who are currently going through the required regulatory and compliance processes in order to join our distribution network in the coming year.

Financial Overview

Revenue increased by 11% to £6.09m (2015: £5.47m), with growth in branded product sales up by 11% to £4.66m (2015: £4.18m) and Precision Engineering also generating significantly increased activity with revenue of £0.21m (2015: £0.05m). Reported gross margins have continued to show substantial improvement as a result of operational gearing and foreign exchange gains.

Adjusted EBITDA for the full year (being profit before taking account of exceptional costs, interest, depreciation, amortisation and taxation) amounted to £1.41m, showing strong growth against £0.24m in 2015. The net operating profit for the year was £0.47m (2015: loss of £1.98m). There were no exceptional costs in the year (2015: £1.29m). The net profit and total comprehensive income for the year amounted to £0.72m (2015: loss of £2.03m), after a taxation credit of £0.44m (2015: £0.09m), resulting in earnings per share of 0.15p (2015: loss of 0.42p).

At the end of the year, the Group had returned to a positive cash position of £0.72m (2015: net indebtedness of £2.26m). The Group had available cash resources of £0.78m with additional headroom of £1.3m of unused facilities, and was in compliance with all financial covenants.

People

SI has continued to invest in our people and their training. Amongst other initiatives we have undertaken in 2016 is a year-long programme of lean manufacturing training for all employees which is already delivering improvements throughout the business. Employee numbers have increased, predominantly strengthening manufacturing, assembly and production engineering which all reflect the increased manufacturing output.

Current trading and outlook

Trading results for the first two months of the current year have shown further increases in revenue and profitability compared with the corresponding period last year.

The overall market for minimally invasive surgical products is cost competitive, however it is also forecast to grow at an annual rate of 6.5% in the medium term. We continue to seek opportunities to exceed this rate of revenue growth by increased market share through product range development, high levels of customer service and opening new sales territories.

We also continue to evaluate further opportunities to enhance our product range and market penetration by forging strategic partnerships, including potential acquisition of carefully selected complementary businesses.

Nigel Rogers
Executive Chairman
14 March 2017

Surgical Innovations Group plc
Strategic Report

Whilst the Group's core strategy remains the sale of branded laparoscopic instrumentation, we have recently seen a shift away from the sole development and manufacture of these devices in-house and reached out to selected partners who have demonstrated the ability to work with SI to offer novel solutions in areas of instrumentation where SI has not traditionally operated. One of the first products to come out of this new direction was launched in early 2017. This has enabled SI to begin offering a range of ligation products to complement the existing product portfolio. We are conscious of the fact that the reputation of the Group is built upon our ability to offer surgeons instruments of high quality at reasonable prices. We are now in an era when there is increasing pressure on the costs of healthcare leading to ever more careful scrutiny of prices by purchasing authorities worldwide. Our strategy is to concentrate on the development or acquisition of instruments that surgeons tell us that they need and to introduce efficiency and innovation into the manufacturing process to enable us to provide them at competitive prices.

In November 2016, the Group completed the acquisition of the laparoscopic instruments business and related assets of Surgical Dynamics Limited. This transaction brought not only new products to the SI portfolio but also specialist production processes including metal injection moulding of device components. The assets have now been transferred into the SI site and machining trials are underway.

The Group has continued to foster excellent relationships with our distribution network, engaging our partners through involvement in product development, supporting them in end user trials and gathering with them at several conferences and exhibitions throughout the year. This included a new product launch conference at the Medica trade show in Germany in the last quarter of the 2016 which garnered strong positive feedback on both the new products emerging from SI as well as our performance as a partner. The Group recognises the value in this feedback and relationship and will continue to exceed our customers' expectations in 2017.

The Group continues to work closely with strategic partnerships on OEM projects which challenge our Design and Development teams and complement the core competencies that the Group demonstrates.

The greater emphasis placed on new product introduction culminated in the launch of the Yelloport ™ Elite range in the final quarter of 2016, this will be followed by further additions to this range in Q2 2017 as well as two more projects launching before the end of H1. The Group is excited to be able to offer these products to the market and remains committed to expanding the portfolio of products available further in 2017 and beyond.

The Group has continued to deliver against a backdrop of a challenging economic climate, but by offering consistently high customer service levels, excellent products and being adaptable in the face of market and customer feedback, the Board believes the business is well placed to continue to deliver value to the shareholder base.

Operating and Financial Review

Revenues

Group revenues increased by 11% to £6.09m (2015: £5.47m) demonstrating the ongoing focus of the organisation in improving and expanding its distributor relationships.

£m	**2016**	**2015**	**% change**
SI Brand	4.66	4.18	+11%
OEM	1.22	1.24	-2%
PE	0.21	0.05	+320%
Total	**6.09**	**5.47**	**+11%**

SI Brand
SI Brand sales rose by 11% to £4.66m (2015: £4.18m) with the strongest growth areas being sales to the US and Rest of the World.

Strong growth in the US has come both from the success of the additional distributor engaged at the beginning of the fiscal year, the continued efforts of the incumbent distributor and from gains in exchange as the US dollar moved more favorably against the Sterling.

OEM
OEM sales remained broadly in line with the prior year at £1.22m (2015: £1.24m). Although underlying sales from continuing relationships continue to grow strongly, these were offset by agreements which ended by mutual consent in 2015 and were not repeated in 2016. Although impacting the overall turnover of the OEM business negatively in the period, the conclusion of these agreements delivered a margin uplift as the non-repeated sales were low or no margin business.

Precision Engineering (PE)
The Group undertook further PE projects in the period adding £0.21m to turnover (2015: £0.05m). Revenue from this segment is unpredictable, but the Group remains interested in this field and continues to work with new and existing partners to identify innovative projects on which to collaborate.

Gross margin
Gross margin improved significantly, reaching 33.8% (2015: 14.0%) overall in the year, but delivering 41% in the second half, demonstrating that the production was more in line with demand as the stock levels normalised somewhat in comparison to the over stocking in prior years.

Operating expenses
Excluding exceptional items in the prior year, operating expenses increased to £1.59m (2015: £1.45m), resulting from an increase in headcount and annual performance related bonus costs.

Adjusted EBITDA and operating profit
The adjusted EBITDA is a key performance measure of the business. The Group uses this as a proxy for understanding the underlying performance of the Group. This measure also excludes the items that distort comparability.

The Group achieved a positive adjusted EBITDA of £1.41m for 2016, against a comparable adjusted EBITDA (before exceptional items) of £0.24m in 2015. Operating profit for the year was £0.47m (2015: loss of £1.98m), reflecting the trade of the Group and there were no exceptional items in the year (2015: £1.29m).

Finance costs
Interest on bank and finance lease obligations for 2016 resulted in interest payable of £0.19m (2015: £0.15m). Due to the payback of the loan and the conversion of the loan notes in the final quarter of 2016, the finance costs going forward will be much reduced.

Taxation
The Group recorded a corporation tax credit of £0.44m (2015: £0.09m) and a deferred tax credit of £nil (2015: £nil). In overall terms the Group has substantial tax losses on which it continues to take a cautious view. Consequently the losses have not been recognised and result in an overall effective rate of tax of 157.7% credit (2015: 4.3% credit). During 2016 the Group submitted enhanced Research and Development claims in respect of 2014 and 2015, electing to exchange tax losses for cash refunds totaling £0.44m which were received in June and December 2016.

Intangible and tangible assets
Capitalised development costs at 31 December 2016 increased slightly to £1.47m (2015: £1.36m) reflecting the focus placed on new product development, whilst controlling those costs appropriately. Research and development expenditure continues to be incurred, and a portion has been capitalised in respect of specifically identifiable products amounting to £0.44m (2015: £0.27m). These products are due for launch in the current year.

Capital expenditure on tangible assets continued to reflect a policy of required replacement only during the year at £0.16m (2015: £0.17m) and there are no major capex plans currently under consideration.

In addition during the period the Group acquired certain trade and assets of Surgical Dynamics Limited for £0.36m, which included intangible assets of £0.23m being recognised.

Working capital
Working capital further reduced by £0.97m to £2.04m (2015: £3.01m). The continued focus on cash and rebalancing the business drove the stock reduction by a further 22% to £1.50m (2015: £1.92m), whilst current trade receivables reduced to £1.10m (2015: £1.30m), despite 11% growth in turnover. Trade creditors reduced to £0.34m (2015: £0.41m) as the business focused on reducing costs and harnessing its increased buying power to negotiate better terms as manufacturing activity increased. This is expected to increase in 2017 in line with the rise in spending on materials to support increased manufacturing activity as new products are brought online and additional stock holding is required, though not to the levels seen in previous years.

Cash flow, financing and net debt
The Group generated cash from operations of £2.40m (2015: £1.58m) primarily as a result of the working capital movements described above. Cash used in investment was £0.78m (2015: £0.45m) resulting in a cash inflow before financing of £2.00m (2015: £1.06m).

This inflow was utilised by the business to facilitate early repayment of the term loan put in place in 2014. This loan was originally due for repayment in November 2017, but the business was in a position to repay this debt early and so in conjunction with the bank, transitioned to a rolling credit facility of £1.30m to be drawn down as the business requires. None of this facility had been drawn down by the year-end.

At 31 December 2016, total gross indebtedness was £0.05m (2015: £3.24m) and the Company had available cash resources of £0.78m (2015: £0.98m).

Going concern
The Directors have prepared forecasts for the period to March 2018, which demonstrate a positive cashflow. The Group have access to banking facilities, which comprise of a committed £1.30m revolving credit facility. Hire purchase agreements are utilised where required. The commitment of the revolving credit facility of £1.30m may be used towards meeting the Group's general working capital and other commitments. It is subject to compliance with financial covenants which measure the ratio of cashflow to debt service and EBITDA starting quarterly from December 2016.

Based on the forecasts, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Board has also concluded that there are no material uncertainties and that the going concern basis should be adopted in preparing these financial statements.

Melanie Ross
Chief Finance Officer
14 March 2017

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Revenue	2	**6,089**	5,468
Cost of sales		**(4,029)**	(4,704)
Gross profit		**2,060**	764
Other operating expenses	3	**(1,591)**	(2,739)
Adjusted EBITDA		**1,408**	242
Exceptional items		**-**	(1,290)
Amortisation of intangible assets		**(429)**	(426)
Depreciation of tangible assets		**(510)**	(501)
Operating profit/(loss)	3	**469**	(1,975)
Finance costs	5	**(192)**	(153)
Finance income	6	**1**	3
Profit/(loss) before taxation		**278**	(2,125)
Taxation credit	7	**438**	92
Profit/(loss) and total comprehensive deficit		**716**	(2,033)
Profit/(loss) per share, total and continuing			
Basic	8	**0.15p**	(0.42)p
Diluted	8	**0.14p**	(0.42)p

The Consolidated statement of comprehensive income above relates to continuing operations.

Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation and exceptional items.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2015	4,851	1,634	329	(695)	6,119
Employee share-based payment options	-	-	-	(175)	(175)
Equity placing for cash proceeds	12	7	-	-	19
Total – transactions with owners	12	7	-	(175)	(156)
Loss and total comprehensive income for the period	-	-	-	(2,033)	(2,033)
Balance as at 31 December 2015	**4,863**	**1,641**	**329**	**(2,903)**	**3,930**
Employee share-based payment	-	-	-	23	23
Equity issues	471	698	-	-	1,169
Total – transactions with owners	471	698	-	23	1,192
Profit and total comprehensive income for the period	-	-	-	716	716
Balance as at 31 December 2016	**5,334**	**2,339**	**329**	**(2,164)**	**5,838**

Consolidated balance sheet

at 31 December 2016

	2016 £'000	2015 £'000
Assets		
Non-current assets		
Property, plant and equipment	**1,579**	1,827
Intangible assets	**1,597**	1,361
	3,176	3,188
Current assets		
Inventories	**1,496**	1,916
Trade receivables	**1,098**	1,301
Other current assets	**289**	389
Cash at bank and in hand	**775**	976
	3,658	4,582
Total assets	**6,834**	7,770
Equity and liabilities		
Equity attributable to equity holders of the parent company		
Share capital	**5,334**	4,863
Share premium account	**2,339**	1,641
Capital reserve	**329**	329
Retained earnings	**(2,164)**	(2,903)
Total equity	**5,838**	3,930
Non-current liabilities		
Borrowings	**-**	2,982
Obligations under finance leases	**8**	62
Deferred tax liabilities	**-**	-
	8	3,044
Current liabilities		
Trade and other payables	**337**	408
Obligations under finance leases	**45**	196
Accruals	**606**	192
	988	796
Total liabilities	**996**	3,840
Total equity and liabilities	**6,834**	7,770

Consolidated cash flow statement

for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Cash flows from operating activities		
Operating profit/(loss)	**469**	(1,975)
Adjustments for:		
Non-cash exceptional items	**-**	1,152
Depreciation of property, plant and equipment	**510**	501
Amortisation of intangible assets	**429**	426
Share-based payment charge	**23**	-
Grant income	**(10)**	(50)
Foreign exchange	**65**	6
Decrease in inventories	**797**	1,586
Decrease in current receivables	**178**	472
Decrease in payables	**(61)**	(538)
Cash generated from operations	**2,400**	1,580
Taxation received	**531**	-
Interest paid	**(86)**	(68)
Net cash generated from operating activities	**2,845**	1,512
Payments to acquire property, plant and equipment	**(161)**	(172)
Acquisition of intangible assets	**(440)**	(275)
Acquisition of Surgical Dynamics assets and laparoscopic business	**(182)**	-
Net cash used in investment activities	**(783)**	(447)
Conversion of Loan Notes 2017	**-**	500
Repayment of bank loan	**(2,000)**	(1,000)
Cash received from issue of shares	**-**	19
Repayment of obligations under finance leases	**(198)**	(280)
Net cash used in financing activities	**(2,198)**	(761)
Net (decrease) / increase in cash and cash equivalents	**(136)**	304
Cash and cash equivalents at beginning of year	**976**	678
Effective exchange rate fluctuations on cash held	**(65)**	(6)
Cash and cash equivalents at end of year	**775**	976

Notes to the consolidated financial statements

1. Group accounting policies under IFRS

Basis of preparation

The audited financial statements have been prepared on the basis of the IFRS accounting policies set out herein. The financial statements have been prepared in accordance with IFRS as adopted for use by the European Union, including IFRIC interpretations, and in line with those provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The financial statements have been prepared under the historical cost convention, are presented in Sterling and are rounded to the nearest thousand.

The Directors have considered the available cash resources of the Group and its current forecasts and are satisfied that the Group has adequate resources to continue in operational existence and that there are no material uncertainties casting doubt over the going concern status of the Group. Accordingly, the financial statements are prepared on a going concern basis.

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date 1 January 2019).

The financial information set out in this preliminary announcement does not constitute the Company's Consolidated Financial Statements for the financial years ended 31 December 2016 or 31 December 2015 but are derived from those Financial Statements. Statutory Financial Statements for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the company's AGM. The auditors, KPMG LLP, have reported on those financial statements. Their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006 in respect of the financial statements for 2015 or 2016.

The Statutory accounts will be available on the Company's website at www.siggroupplc.com with effect from 14 March 2017 and will be posted to selected shareholders at the end of April. Shareholders wishing to request a copy can contact the Company's registered office.

2. Segmental Reporting

Geographical analysis of revenues

	2016 **£'000**	2015 £'000
United Kingdom	**1,920**	1,922
Europe	**1,287**	1,286
US	**1,876**	1,539
Rest of World	**1,006**	721
	6,089	5,468

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2016 £1,235,000 (20.3%) of the Group's revenue depended on one distributor in the SI Brand segment (2015: £1,140,000 (20.8%)).

Sales of goods during 2016 were £5,883,000 and sales relating to services in the UK were £206,000.

3. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2016 was based upon the profit attributable to ordinary shareholders of £716,000 (2015: loss of £2,033,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2016 of 487,924,227 (2015: 485,070,920).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2016 was based upon the profit attributable to ordinary shareholders of £716,000 (2015: loss of £2,033,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2016 of 494,001,073 (2015: 485,070,920).

No. of shares used in calculation of earnings per ordinary share ('000s)	**2016 No. of Shares**	2015 No. of Shares
Basic earnings per share	**487,924**	485,071
Dilutive effect of unexercised share options	**6,077**	-
Diluted earnings per share	**494,001**	485,071

4. Net cash/borrowings

	2016 £'000	2015 £'000
Total borrowings	**53**	3,240
Less: cash and cash equivalents	**(775)**	(976)
Net (cash)/debt	**(722)**	2,264
Total equity	**5,838**	3,930
Total capital	**5,116**	6,194

Bank loan

The sterling bank loan provided by Yorkshire Bank on 17 November 2014, which was due to be repaid November 2017 was subject to quarterly payments of £0.1m, totaling £0.3m in the year. On the 22 December 2016 the remaining balance of the term loan of £1.70m was repaid from available cash resources, and the bank has made available a Revolving Credit Facility (RCF) of up to £1.30m for working capital and other purposes until 31 March 2020.

The RCF is subject to compliance with financial covenants which measure cash flow to debt service and EBITDA. If the bank loan is drawdown the rate of interest applicable to each loan for its interest period will be LIBOR plus 2.8% per annum and it will be secured by a fixed and floating charge over the assets of the Group. At the 31 December 2016, no amount was drawndown.

Loan notes 2017

On the 21 December 2016 all of the outstanding unsecured fixed rate convertible loan notes ("Loan Notes") amounting to £1.00m, together with accrued interest of £0.11m were converted into 44,259,178 ordinary shares of 1p each at a conversion price of 2.5p per share. The Loan Notes were originally created on 17 November 2014 and were repayable on 17 November 2017 unless converted into equity at an earlier date.