

31 August 2016

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

Interim results for the six months ended 30 June 2016

Surgical Innovations Group plc (AIM: SUN), the designer and manufacturer of innovative medical technology for minimally invasive surgery, reports much improved interim results for the six month period ended 30 June 2016, showing robust growth, a return to profit and a return to a net cash bank position.

Highlights:

- Healthy export-led revenue growth – up 16.9% to £3.04m (2015H1: £2.60m)
- Further margin improvements through productivity gains (2016H1: 26.6%, 2015H2: 19.1%)
- Returned to profitability at operating level (Adjusted EBITDA 2016H1: £0.50m, 2015 full year : £0.24m)
- Inventory reduced to within target range (June 2016: £1.28m, Dec 2015: £1.92m)
- Strong cash generation from operations (2016H1: £1.77m, 2015 H1: £0.60m)
- Moved to net cash at bank position (June 2016: £0.43m, Dec 2015: Net debt of £1.00m)
- New product development well placed for launch in second half

Executive Chairman, Nigel Rogers, said:

"The rate of revenue growth was pleasing led by strong exports, especially in the US market. Gross margins and profitability were driven up by productivity gains, and cash generation was sufficient to eliminate net bank borrowings by the end of the period.

"Our focus on innovation, productivity, exporting and excellence in products and service continue to deliver improving results and open new opportunities to develop the business. Accordingly we look forward with confidence."

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Surgical Innovations Group plc

Chairman's Statement

For the six month period ended 30 June 2016

I am pleased to report that the Company delivered a robust trading performance in the first half of the year, and has started the second half with confidence.

The rate of revenue growth was pleasing led by strong exports, especially in the US market. Gross margins and profitability were driven up by productivity gains, and cash generation was sufficient to eliminate net bank borrowings by the end of the period.

We have sustained our commitment to investment in new product development, with an overall spend equivalent to almost 15% of revenues (before applicable tax relief). This activity has placed the Company well to launch new branded product ranges in the latter part of this year and next, whilst maintaining close links with our key OEM partners, and ensuring the successful transition into Phase II due to a collaboration in the field of Precision Engineering.

Brand identity, innovation and global reach

SI is recognised as a provider of high quality products offering surgeons robust, reliable and ergonomic solutions. Our reputation is built upon meeting or exceeding stringent quality and regulatory standards, and designing and manufacturing devices and instruments that fulfil all of the requirements of a demanding customer base. We have an excellent track record in supporting the development of advanced clinical techniques due to the valued input of our Clinical Advisory Board, led by Prof. Mike McMahon.

Through strong relationships with a loyal distribution base in more than 30 countries, we have a global reach that ensures that more than 70% of SI branded product is exported. We aim to continue to serve the increasing needs of our marketplace through consultation with clinicians, distributors and procurement specialists, and by building on our strong product portfolio and brand recognition.

Financial Overview

Revenue increased by 16.9% to £3.04m (2015H1: £2.60m), with export sales up by 19.1% to £2.18m (2015H1: £1.83m) despite sluggish conditions in Continental Europe. Manufacturing output increased at a faster rate, as the programme of inventory reduction initiated in 2014 was brought within target range by the period end. The effects of increased output, coupled with other productivity, efficiency and purchasing gains, was to further improve average gross margins for the period to 26.6% of revenues, compared with 19.1% for the second half of last year.

With other operating expenses continuing to be tightly controlled, EBITDA for the first half of the year (being profit before taking account of interest, depreciation, amortisation and taxation) amounted to £0.50m, which compares favourably with an Adjusted EBITDA (also before allowing for exceptional costs) of £0.24m for the full year of 2015. There were no exceptional items in the current period. The net operating profit for the period was £0.03m (2015 full year: loss of £1.97m, after exceptional costs relating to long term debtor provisions, stock provisions, impairment of intangibles and restructuring costs of £1.29m).

The net profit and total comprehensive income for the year amounted to £0.25m (2015 full year: loss and deficit of £2.03m), resulting in net earnings per share of 0.05p (2015 full year: loss of 0.42p).

Inventories at the end of the period stood at £1.28m (December 2015: £1.92m), which is within the upper limits of our target range for inventory holdings at the current level of activity. This indicates that production output in the second half of the year will increase further to come broadly into line with cost of sales.

Net cash flow from operating activities amounted to £1.77m (2015 full year: £1.51m), reflecting increased profitability and more efficient use of working capital. At the end of the period, the Group had available cash at bank of £0.43m, and was in full compliance with all financial covenants. Total net indebtedness, taking account of convertible loan

capital and finance leases outstanding, reduced to £0.72m (December 2015: £2.26m) and gearing reduced to 17.0% (December 2015: 57.6 %)

Product development

The first phase products for the new YelloPort Elite range are currently awaiting CE approval and are expected to launch in the UK in the third quarter of the year, and across European markets early in 2017. Clinical feedback has been positive with surgeons keen to try the product range in surgery. Further products are well advanced through internal development, and we are evaluating a number of factored products to broaden the portfolio in a shorter timescale.

Through work with our world leading industrial partners, the Company has identified a number of further potential applications for our core retraction know-how in the precision engineering field which are being explored.

Current trading and outlook

Revenues in the second half of the year to date have continued to outperform the corresponding period last year, and indications of customer demand for the remainder of the year are satisfactory. Margins are expected to benefit from recent fluctuations in currency, with the majority of exports priced in local currencies and a cost base primarily priced in Sterling. With net inventory levels now within target range, production output has been progressively increased, which is expected to further improve gross margins and provide scope to counter competitive pressures.

Our focus on innovation, productivity, exporting and excellence in products and service continue to deliver improving results and open new opportunities to develop the business. Accordingly we look forward with confidence.

Nigel Rogers
Executive Chairman
31 August 2016

Unaudited consolidated income statement for the six months ended 30 June 2016

	Notes	Unaudited six months ended 30 June 2016 £'000	Unaudited six months ended 30 June 2015 £'000	Audited Year Ended 31 December 2015 £'000
Revenue	2	3,037	2,597	5,468
Cost of sales		(2,228)	(2,380)	(4,704)
Gross profit		809	217	764
Other operating expenses		(775)	(2,045)	(2,739)
EBITDA *		497	(48)	242
Depreciation and amortisation		(463)	(486)	(927)
Exceptional items		-	(1,294)	(1,290)
Operating profit/(loss)		34	(1,828)	(1,975)
Finance costs		(92)	(80)	(153)
Finance income		-	2	3
Loss before taxation		(58)	(1,906)	(2,125)
Taxation credit	3	304	-	92
Profit/(Loss) and total comprehensive income for the period attributable to the owners of the parent		246	(1,906)	(2,033)
Earnings/(loss) per share				
Basic	4	0.05p	(0.39)p	(0.42)p
Diluted	4	0.05p	(0.39)p	(0.42)p

* EBITDA is earnings before interest, depreciation, amortisation and exceptional items.

Unaudited consolidated statement of changes in equity for the six months ended 30 June 2016

	Share capital £'000	Share premium £'000	Capital Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2016	4,863	1,641	329	(2,903)	3,930
<i>Issue of shares</i>	17	13	-	-	30
<i>Employee share-based payment charge</i>	-	-	-	12	12
Total - Transaction with owners	4,880	1,654	329	(2,891)	3,972
Profit and total comprehensive income for the period	-	-	-	246	246
Unaudited balance as at 30 June 2016	4,880	1,654	329	(2,645)	4,218

Unaudited consolidated balance sheet as at 30 June 2016

	Unaudited 30 June 2016 £'000	Unaudited 30 June 2015 £'000	Audited 31 December 2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	1,622	1,949	1,827
Intangible assets	1,357	1,476	1,361
	2,979	3,425	3,188
Current assets			
Inventories	1,282	2,865	1,916
Trade receivables	892	809	1,301
Other current assets	587	319	389
Cash and cash equivalents	2,214	1,457	976
	4,975	5,450	4,582
Total assets	7,954	8,875	7,770
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	4,880	4,851	4,863
Share premium account	1,654	1,634	1,641
Capital reserve	329	329	329
Retained earnings	(2,645)	(2,776)	(2,903)
Total equity	4,218	4,038	3,930
Non-current liabilities			
Borrowings	2,788	3,976	2,982
Obligations under finance leases	17	168	62
	2,805	4,144	3,044
Current liabilities			
Trade and other payables	270	157	257
Deferred income – government grant	151	151	151
Obligations under finance leases	128	230	196
Accruals	382	155	192
	931	693	796
Total liabilities	3,736	4,837	3,840
Total equity and liabilities	7,954	8,875	7,770

Unaudited consolidated cash flow statement for the six months ended 30 June 2016

	Unaudited six months ended 30 June 2016 £'000	Unaudited six months ended 30 June 2015 £'000	Audited year ended 31 December 2015 £'000
Cash flows from operating activities			
Operating profit/(loss)	34	(1,828)	(1,975)
Adjustments for:			
Exceptional item	-	1,331	1,152
Depreciation of property, plant and equipment	258	251	501
Amortisation of intangible assets	205	235	426
Share-based payment charge	12	-	-
Grant income	(10)	(37)	(50)
Operating cash flows before movement in working capital	499	(48)	54
Decrease in inventories	659	953	1,586
Decrease in current receivables	449	437	472
Increase/(decrease) in trade and other payables	215	(686)	(538)
Cash generated from operations	1,822	656	1,574
Taxation received	-	-	-
Interest paid	(48)	(58)	(68)
Net cash generated from operating activities	1,774	598	1,506
Cash flows from investing activities			
Payments to acquire property, plant and equipment	(52)	(43)	(172)
Acquisition of intangible assets	(201)	(157)	(275)
Net cash (used in) investing activities	(253)	(200)	(447)
Cash flows from financing activities			
Issue of Loan Notes 2017	-	500	500
Cash received from issue of shares	30	-	19
Cash received from government grant	-	37	-
Repayment of bank loan	(200)	-	(1,000)
Repayment of obligations under finance leases	(113)	(157)	(280)
Net cash (used in) financing activities	(283)	380	(761)
Net increase in cash and cash equivalents	1,238	779	298
Cash and cash equivalents at beginning of period	976	678	678
Net cash and cash equivalents at end of period	2,214	1,457	976
Analysis of net borrowings:			
Cash at bank and in hand	2,214	1,457	976
Bank loan	(1,788)	(2,976)	(1,982)
Loan notes 2017	(1,000)	(1,000)	(1,000)
Obligations under finance leases	(145)	(399)	(258)
Net borrowings at end of period	(719)	(2,918)	(2,264)

Notes to the Interim Financial Information

1. Basis of preparation of interim financial information

The interim financial information was approved by the Board of Directors on 30 August 2016. The financial information set out in the interim report is unaudited.

The interim financial information has been prepared in accordance with the AIM Rules for Companies and on a basis consistent with the accounting policies and methods of computation as published by the Group in its annual report for the year ended 31 December 2015, which is available on the Group's website.

The Group has chosen not to adopt IAS 34 Interim Financial Statements in preparing these interim financial statements and therefore the interim financial information is not in full compliance with International Financial Reporting Standards as adopted for use in the European Union.

The financial information set out in this interim report does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The figures for the year ended 31 December 2015 have been extracted from the statutory financial statements which have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under sections 498(2) and 498(3) of the Companies Act 2006.

2. Segmental reporting

Information reported to the Board and for the purpose of assessing performance and making investment decisions is organised into three operating segments. The Group's operating segments under IFRS 8 are as follows:

SI Brand - the research, development, manufacture and distribution of SI branded minimally invasive devices.

OEM - the research, development, manufacture and distribution of minimally invasive devices for third party medical device companies through either own label or co-branding.

PE - (Precision Engineering formerly Industrial.) The research, development, manufacture and sale of precision engineering applications.

The measure of profit or loss for each reportable segment is gross margin less attributable amortisation of product development costs.

Assets and working capital are monitored on a Group basis, with no separate disclosure of asset by segment made in the management accounts, and hence no separate asset disclosure is provided here. The following segmental analysis has been produced to provide reconciliation between the information used by the key decision makers within the business and the information as it is presented under IFRS.

*The segment result calculation has been changed to reflect a more representative apportionment of the allocation of manufacturing overheads.

Six months ended 30 June 2016 (unaudited)	SI Brand	OEM	PE	Total
	£'000	£'000	£'000	£'000
Revenue	2,470	526	41	3,037
Result				
Segment result*	503	74	27	604
Exceptional items				-
Unallocated expenses				(570)
Operating profit				34
Finance costs				(92)
Finance income				-
Loss before taxation				(58)
Tax				304
Profit for the period				246

Included within the segment/operating results are the following significant non-cash items:

Six months ended 30 June 2016 (unaudited)	SI Brand	OEM	PE	Total
	£'000	£'000	£'000	£'000
Amortisation of intangible assets	142	63	-	205

Six months ended 30 June 2015 (unaudited)	SI Brand	OEM	PE	Total
	£'000	£'000	£'000	£'000
Revenue	2,119	478	-	2,597
Result				
Segment result*	(63)	45	-	(18)
Exceptional items				(1,294)
Unallocated expenses				(516)
Operating loss				(1,828)
Finance costs				(80)
Finance income				2
Loss before taxation				(1,906)
Tax				-
Loss for the period				(1,906)

Included within the segment/operating results are the following significant non-cash items:

Six months ended 30 June 2015 (unaudited)	SI Brand	OEM	PE	Total
	£'000	£'000	£'000	£'000
Amortisation of intangible assets	155	81	-	235

Year ended 31 December 2015 (audited)	SI Brand	OEM	PE	Total
	£'000	£'000	£'000	£'000
Revenue	4,175	1,243	50	5,468
Result				
Segment result*	282	6	50	338
Unallocated expenses				(2,313)
Operating loss				(1,975)
Finance income				3
Finance costs				(153)
Loss before taxation				(2,125)
Tax				92
Loss for the period				(2,033)

Included within the segment/operating results are the following significant non-cash items:

Year ended 31 December 2015 (audited)	SI Brand	OEM	Industrial	Total
	£'000	£'000	£'000	£'000
Amortisation of intangible assets	282	144	-	426

Unallocated expenses include those costs that cannot be split between segments and which are not separately analysed in the management accounts including concept department, sales and marketing, and head office overheads.

Geographical analysis

	Unaudited six months ended 30 June 2016 £'000	Unaudited six months ended 30 June 2015 £'000	Audited year ended 31 December 2015 £'000
United Kingdom	863	771	1,922
Europe	663	680	1,286
US	1,031	758	1,539
Rest of World	480	388	721
	3,037	2,597	5,468

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use.

3. Taxation

Current Tax

During 2015 the Group submitted enhanced Research and Development claims in respect of 2014 and elected to exchange tax losses for a cash refund of £304,000 which was received in August 2016.

Deferred Tax

At the balance sheet date, the Group has unused tax losses of £21.7 million (year ending 31 December 2015: £21.5 million) available for offset against certain future profits. The recoverability of the deferred tax asset is dependent on future taxable profits in excess of those arising from the reversal of deferred tax liabilities. The recognition of the deferred tax assets is based upon the estimate of future availability of suitable profits. Certain deferred tax assets and liabilities have been offset.

4. Earnings per share

	Unaudited six months ended 30 June 2016	Unaudited six months ended 30 June 2015	Audited year ended 31 December 2015
Earnings per share			
Basic	0.05p	(0.39)p	(0.42)p
Diluted	0.05p	(0.39)p	(0.42)p
Adjusted earnings per share			
Basic	(0.01)p	(0.13)p	(0.17)p
Diluted	(0.01)p	(0.13)p	(0.17)p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue. Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the diluted weighted average number of shares in issue. Adjusted earnings per share is calculated by dividing adjusted earnings attributable to ordinary shareholders as set out below by the weighted average number of shares in issue.

The Group has one category of dilutive potential ordinary shares being share options issued to Directors and employees. The impact of dilutive potential ordinary shares on the calculation of weighted average number of shares is set out below.

	Unaudited six months ended 30 June 2016 '000s	Unaudited six months ended 30 June 2015 '000s	Audited year ended 31 December 2015 '000s
Weighted average number of ordinary shares	486,539	485,064	485,071
Dilutive effect of share options in issue	1,294	-	-
Diluted weighted average number of ordinary shares	487,833	485,064	485,071

Earnings attributable to ordinary shareholders used in the calculation of basic and diluted earnings per share together with a reconciliation to adjusted earnings attributable to ordinary shareholders is as follows:

	Unaudited six months ended 30 June 2016 £'000	Unaudited six months ended 30 June 2015 £'000	Audited year ended 31 December 2015 £'000
Loss before taxation	(58)	(1,906)	(2,125)
Exceptional items	-	1,294	1,290
Adjusted loss for the period	(58)	(612)	(835)

Adjusted earnings per share has been calculated so as to exclude the impact of exceptional items and a one-off deferred tax adjustment in prior periods which are one-off in nature and thus have a distortive impact on the ordinary calculation of earnings per share.

5. Related Party Transaction

Getz Bros and Co (BVI) Inc. ("Getz") is a substantial shareholder of Surgical Innovations Group plc. Getz is the ultimate beneficial owner of Asia Cardiovascular Products Limited ("ACP").

ACP acts as the master distributor for SI in the Far East. During the six months ended 30 June 2016, SI invoiced ACP £125,000 for products and as at 30 June 2016 there was an amount owing to the Group of £34,000.

As previously advised in the annual report for 2015, Getz subscribed for £500,000 of loan note funding during November 2014 and March 2015.

The principal amount of the loan notes, together with accrued interest, is due for repayment on 17 November 2017. The interest accruing on the loan notes was 3% per annum until 17 November 2015 and 7.5 % per annum thereafter.

6. Interim Report

This interim report is available at www.sigroupplc.com.