Consort Medical

# *News Release*

17 June 2014

## Consort Medical plc

## Final results for the year ended 30 April 2014

### Continuing strong performance and execution of strategy

Consort Medical plc (LSE: CSRT) ("Consort", "Consort Medical" or the "Group"), a leading designer and manufacturer of drug delivery device technologies, today announces its audited results for the year ended 30 April 2014.

Financial Highlights[1]

| **GBPm**<br><br>***12 months ended*** | **FY2014**<br><br>***30 April 2014*** | **FY2013**<br><br>***30 April 2013*** | **Growth** |
|---|---|---|---|
| **Revenue** | 100.0 | 95.0 | 5.2% |
| **Operating profit (before special items[2])** | 18.8 | 18.1 | 4.0% |
| **EBITDA (before special items[2])** | 24.4 | 24.0 | 2.0% |
| **Profit before tax and special items[2]** | 17.5 | 15.9 | 10.1% |
| **Profit before tax** | 16.1 | 14.4 | 12.1% |
| **Adjusted basic earnings per share[3]** | 48.3p | 44.5p | 8.5% |
| **Full year dividend per share** | 20.7p | 19.71p | 5.0% |
| **Net Cash** | 25.8 | 37.0 | |

- Bespak revenue surpasses £100m
- Strong organic revenue growth of 5.2%, in particular from Chiesi NEXThaler®
- Growth in adjusted EPS of 8.5% to 48.3p per share
- Increased final dividend to 13.35p per share
- Net cash of £25.8m despite significant investment in facilities and production capacity

Operational Highlights

- Regulatory approval and launch of first auto-injector, for Dr. Reddy's sumatriptan, a migraine therapy
- Award of exclusive multi-year commercial supply contract for our dry powder inhaler (DPI) programme DEV610
- Award of Bespak's first MHRA licence for commercial drug handling for Nicoventures' nicotine inhaler
- Unveiling of Syrina® and Vapoursoft®, delivering the first such liquid gas propelled auto-injector
- Completion and pilot scale manufacturing of Atlas Genetics **io**™ Cartridge (POC010)
- Award of development contract for novel PatchPump® infusion device from Steadymed

Atlas Genetics have issued a press release today, providing more details of the progress of the **io™** system. This is available at www.atlasgenetics.com and www.bespak.com.

[1] financial performance metrics relate to continuing operations unless stated otherwise.
[2] special items from continuing operations includes amortisation of acquired intangible assets (£0.8m) and acquisition related costs (£0.6m).
[3] adjusted basic earnings per share is calculated using profit after tax from continuing operations before special items.

Steadymed Therapeutics have issued a press release today with Bespak, providing more details of the development contract. This is available at www.steadymed.com and www.bespak.com.

***Jon Glenn, Chief Executive Officer, commented:***

*"This was an excellent year for Consort Medical with strong performance and execution of strategy, delivering solid organic revenue growth of 5.2% and EPS growth of 8.5% from its diversifying core portfolio. We celebrated a number of 'firsts' during the year: the first year Bespak revenues surpassed £100m; the approval and launch of our first auto-injector; the award of our first MHRA commercial drug handling licence; the first development contract award for an innovation centre developed product (NAS030); and the unveiling of the first liquid gas powered auto-injector (Syrina®) and the first dual product injector (Lila®).*

*"The Board is confident of further future organic growth arising from existing business, from further conversion of the development pipeline programmes and from new opportunities, including the conversion of the innovation pipeline to full development programmes with partners."*

**Enquiries:**


**Consort Medical plc** **Tel: +44 (0) 1442 867920**
Jonathan Glenn, Chief Executive Officer
Richard Cotton, Chief Financial Officer

**Brunswick Group LLP** **Tel: +44 (0) 20 7404 5959**
Jon Coles / Pip Green / Anna Carruth


Consort Medical plc is an international medical devices company, focused on developing and manufacturing disposable medical devices for drug delivery. The principal business of the Company is the management of Bespak, a global market leader in the manufacture of drug delivery devices for pharmaceutical partner companies, including respiratory, nasal, and injectables products, and the manufacture of devices for the point of care diagnostics market.

The Group has facilities in King's Lynn, Cambridge, Nelson and Hemel Hempstead in the UK. Consort Medical is a public company quoted on the premium list of the London Stock Exchange (LSE: CSRT). The Group's website address is www.consortmedical.com.

**Consort Medical plc**

**Chairman and Chief Executive's Combined Review**

**This year Consort Medical celebrated a number of 'firsts': the first year Bespak revenues surpassed £100m; the approval and launch of our first auto-injector; the award of our first MHRA commercial drug handling licence; the first development contract award for an innovation centre developed product (NAS030); and the unveiling of the first liquid gas powered auto-injector (Syrina®) and the first dual product injector (Lila®).**

**Highlights:**

- **Bespak surpassed £100m revenue for the first time**
- **Solid organic revenue growth of 5.2%, strong contribution from Chiesi NEXThaler®**
- **Growth in adjusted basic EPS by 8.5% to 48.3p per share**
- **Regulatory approval and launch of first auto-injector for Dr. Reddy's sumatriptan, a migraine therapy**
- **Award of exclusive multi-year commercial supply contract for our DPI programme DEV610**
- **Award of Bespak's first MHRA licence for commercial drug handling for Nicoventures nicotine inhaler (DEV200)**
- **Unveiling of Syrina® and Vapoursoft®, delivering the first such liquid gas propelled auto-injector**

**Financial Performance**[4]

Revenue increased by £5.0m (5.2%) to £100.0m (FY2013: £95.0m), with a strong contribution from growth in the sales of the Chiesi NEXThaler®. Operating profit before special items increased by 4.0% to £18.8m (FY2013: £18.1m), with operating margin at 18.8% (FY2013: 19.0%).

Profit before tax and special items increased by £1.6m (10.1%) to £17.5m (FY2013: £15.9m). Adjusted EPS increased by 8.5% to 48.3p per share (FY2013: 44.5p). Basic EPS increased by 25.1% to 47.4p per share (FY2013: 37.9p).

Cash generated from operations[5] decreased by £5.8m to £19.2m (FY2013: £25.0m). EBITDA before special items was up £0.5m (2.0%) at £24.4m (FY2013: £24.0m). Working capital[6] increased £4.0m to £24.1m (FY2013: £20.1m) which, after deducting the King Systems contingent consideration, represents 12.9% of sales (FY2013: 8.9%). The increase is due to lower capital expenditure creditors related to timing of major programme investments. Capital expenditure[5] of £16.3m (FY2013: £6.9m) was higher than the previous year, as the business made significant investments in facilities and production capacity to fulfil its development pipeline contracts.

The Group balance sheet closed with a net cash position of £25.8m (FY2013: net cash £37.0m). With headroom of £73.3m under its undrawn banking facility, and a further £25.0m available under the accordion facility, the Group has significant financial resources readily available.

The Board is proposing an increased final dividend of 13.35p (FY2013: 12.71p), making a total dividend for the year of 20.7p (FY2013: 19.71p). This represents dividend cover of 2.35 times. Further commentary on the financial results is contained within the Financial Review.

**Customers and Markets**

Following the launch of the Chiesi NEXThaler® DPI in March 2013, initially in Germany, the product has subsequently been launched further afield into Austria, Belgium, Netherlands, Spain and Italy. The product is approved in 14 European countries. The product has been well received in the six markets in which it has been launched to date, and further territory launches are anticipated in the near term. In April 2014 we agreed a volume extension to the NEXThaler® supply contract volumes, to facilitate further market penetration of the product.

---

[4] financial performance metrics relate to continuing operations unless stated otherwise.

[5] cash flow performance metrics relate to continuing operations only and are before any cash paid relating to special items.

[6] working capital is defined as the total of inventory, trade and other receivables and trade and other payables.

In November 2013 Bespak was successful in securing the commercial supply contract for its development programme DEV610. This platform device programme will potentially provide material future revenues for Bespak, and further illustrates customer confidence in Bespak's development and industrialisation expertise. With the Chiesi NEXThaler® and now the DEV610 manufacturing contract, Bespak has a growing DPI business, further diversifying its respiratory franchise.

Our pressurised metered dose inhaler (pMDI) valves business continues to grow, with further new drug device formulations launched during the year, alongside significant pipeline programmes within our development portfolio – VAL310 and VAL020 in particular.

In February we celebrated the regulatory approval and launch of INJ300, our first auto-injector on the market. The customer is Dr. Reddy's Laboratories for injected sumatriptan – a migraine therapy. Securing regulatory approval and commercial launch of our first auto-injector is a major milestone for Consort Medical's injectables technology, confirms Bespak's capability in the auto-injector market, and is a significant step in the execution of our diversification strategy.

We were awarded a development contract in July 2013 for NAS030, a nasal device for a pharma company. This device is the first product to have been initiated from our Innovations centre for which a customer development programme has then been secured, and clearly demonstrates the potential of the Innovations Team in delivering revenue growth and product diversification opportunities.

In August 2013 we received our first commercial drug handling licence from the MHRA. This licence grants Bespak approval to assemble the drug into the finished device for DEV200 – our development programme for Nicoventures for the nicotine inhaler. This represents a further significant milestone for Bespak and further execution of our strategy in harnessing an additional part of the value chain.

Service revenue has continued to grow, increasing 78.7% in the year, as our full development and innovation pipelines deliver development and industrialisation revenues. This continues to be an important feature of our activities, as customers partner with Bespak for its development and regulatory expertise prior to manufacturing supply.

In 2008 when we launched our Strategy for Sustainable Growth, we targeted diversified revenue growth in three areas: our core Respiratory franchise, other market segments such as Injectables and Nasal, and higher value added business. Our progress in DPIs, auto-injectors, nasal and commercial drug handling represent robust execution in all three areas.

**Manufacturing**

Our business assembles more than 500 million complex devices per year, from more than 3.6 billion components, of which approximately 2.6 billion are manufactured at Bespak. These volumes are expected to grow as the range of new products pass through the development pipeline into volume manufacture. Bespak also has an exceptional quality record and to date has manufactured more than 1 billion HFA MDI valves and 600 million Diskus® devices to exacting standards.

Bespak has 19,300 sq M of manufacturing space, including over 8,000 sq M of clean room space currently installed and operational at its King's Lynn facility. Following the award of commercial supply contracts for both DEV200 (Nicoventures) and DEV610, and the extension of the Chiesi NEXThaler® supply agreement, major facilities expansion is underway at both the King's Lynn and Milton Keynes sites.

- At King's Lynn the construction of the assembly facility of 4,200 sq M and cleanroom commissioning for DEV200 is nearing completion. The component moulding operations for DEV200 will be housed at the Milton Keynes site of 1,900 sq M: this has been refurbished, the clean room commissioned, and the equipping phase is well advanced.
- For DEV610, a new 5,200 sq M facility will be constructed at King's Lynn to house both the assembly and moulding operations. Construction started in May 2014 and is expected to complete in approximately 12 months' time.
- The extension of the Chiesi NEXThaler® supply contract requires expansion of the currently allocated cleanroom capacity which houses the automated manufacturing lines. This will be accommodated by a reconfiguration and refit of current manufacturing facilities at King's Lynn.

**Product Development**

We have a strong and diverse core business of products in volume manufacturing. In line with our strategy we have assembled a full and broad product development pipeline of organic growth opportunities, which will add to the strength of this core business going forwards. Successful conversion of these opportunities will provide progressive revenue and profit growth, in both contract manufacturing and products with our own proprietary IP and across a range of therapeutic areas including commercial drug handling.

***Development Portfolio***

Our published development portfolio provides an update on the key business development projects in the business. We guide that for inclusion in the published portfolio, projects must have a reasonable expectation of success – though timescales are difficult to predict – and be expected to produce peak annual sales of at least £3m per annum.

Within the current portfolio are two programmes which have the potential to be materially more significant in revenue terms if successful: the Nicoventures nicotine inhaler (DEV200) and the DEV610 DPI. These programmes are the object of significant investment currently, and have the potential to provide transformational organic growth beyond that normally expected of development projects.

In July 2013 we announced the award of a new development contract NAS030 for a novel patented nasal drug delivery device. This is the first development contract which has arisen out of an own-IP product innovation which originated in the Innovation Team in Cambridge – which was established just over three years ago.

In February 2014 we celebrated the regulatory approval and launch of Bespak's first auto-injector, which confirms Bespak's capabilities in the injectables market.

The current status of the major programmes currently in our development pipeline is listed below.

| Project | Description | Customer | Status |
|---|---|---|---|
| ***INJ300*** | ***Auto-injector*** | ***Dr. Reddy's Laboratories*** | ***Approved and launched February 2014*** |
| VAL310 | Easifill primeless valve | US Pharma | Awaiting regulatory approval. Launch now expected H1 2015 |
| INJ570 | Auto-injector | Global Pharma | Awaiting regulatory approval |
| VAL020 | MDI valve | Global Pharma | Final stability trials ongoing. Completion now expected H1 2015 |
| DEV200 | Nicotine delivery | Nicoventures | Awaiting regulatory approval |
| POC010 | POC Test Cartridge | Atlas Genetics | Manufacturing line complete. CE mark expected H1 2015 |
| NAS020 | Nasal device | Global Generic | Continued progress. Launch still expected H1 2015 |
| DEV610 | DPI | Global Pharma | Good progress. Launch expected 2015 |
| NAS030 | Nasal device | Pharma co. | Early stage programme |
| INJ600 | PatchPump® infusion system for Treprostinel | SteadyMed Therapeutics Inc. | Contract awarded June 2014 |

*DPI = Dry Powder Inhaler, MDI = Metered Dose Inhaler, POC = Point of Care*

The manufacturing line to support the assembly of the Atlas **io**™ Cartridge (POC010) is complete, and pilot scale manufacture is underway to support the final device validation and regulatory clearance / CE marking phases of the project. The **io**™ Cartridge will initially be available for diagnosis of Chlamydia, though several other tests and combinations are already under development for the sub-30 minute **io**™ System, both for Sexually Transmitted Infections (STIs) and Hospital Acquired Infections (HAIs).

VAL310 is undergoing regulatory approval and launch is now expected in H1 2015. On VAL020 stability trials have been extended by the customer, and completion is now expected in H1 2015.

In June 2014, Bespak was awarded the development contract for a novel PatchPump® infusion device for parenteral delivery of liquid drugs. The contract was awarded by Steadymed Therapeutics Inc. for their PatchPump device, in a late development-stage product called Trevyent™ to administer Treprostinel, for the treatment of the orphan disease Pulmonary Arterial Hypertension. The award is significant in validation of our expertise and growing presence in the injectables sector. Henceforth the programme will be referred to as INJ600.

### *Innovation Pipeline*

In July 2013, Bespak was awarded a development contract for a customer programme NAS030. This was particularly significant as this was the first programme to be awarded based on a patent protected device functionality developed entirely by the Innovation Centre in Cambridge. The programme is for a nasal device for an undisclosed drug and pharma customer.

In addition to NAS030, the Innovation team has continued to be highly active on a number of fronts over the past year. The team has now grown to 16 (9 at 30 June 2013), and is in the process of moving into its own facilities which will contain a laboratory and pilot scale manufacturing capability.

Of particular note is the commercial unveiling of the Syrina® and Vapoursoft® technologies at the PDA exhibition in Basel in November 2013. These exciting and breakthrough technologies leverage Bespak's expertise and IP in gas propulsion, and from auto-injector intellectual property (IP), and combine them in a family of highly innovative next-generation auto-injectors. The IP for this platform of products has been filed, and product demonstrations have been enthusiastically received by potential customers.

The team also unveiled the Lila® pre-filled syringe which incorporates a novel valve technology configurable as either a stopper or a drug separation option.

The team is in discussions on a number of early stage opportunities, including potential customer applications for Syrina® and Lila®.

### Financial Review[7]

Consort Medical delivered strong financial performance in the year, with the organic revenue growth translating strongly into growth in operating margin, EBITDA and adjusted EPS. As expected the year saw significant investment for future growth, with expanded Capital expenditure to facilitate major development programmes, including the DEV200 Nicoventures programme, and further expansion of our Innovation Team resources in Cambridge. We expect further significant investment in the coming months to complete the Nicoventures' programme; provide the additional plant and equipment to facilitate the DEV610 commercial supply; and the extension of the Chiesi NEXThaler® contract. These commitments can be met comfortably from the Group's existing financial resources.

Income statement[7]

Revenue grew 5.2% to 100.0m (FY2013: £95.0m). Operating profit before special items increased by £0.7m (4.0%) to £18.8m (FY2013: £18.1m). Profit before tax before special items increased by £1.6m (10.1%) to £17.5m (FY2013: £15.9m). Profit before tax after special items increased by £1.7m (12.1%) to £16.1m (FY2013: £14.4m). Profit after tax before special items increased by £1.1m (8.9%) to £13.9m (FY2013: £12.8m).

Adjusted EPS from continuing operations increased by 8.5% to 48.3p per share (FY2013: 44.5p). Basic EPS from continuing operations increased by 25.1% to 47.4p per share (FY2013: 37.9p).

Taxation[7]

The tax charge before special items was £3.6m resulting in an effective rate of 20.6% (FY2013: 19.7%), as set out in note 4. The tax credit on special items was £1.1m (FY2013: tax charge £0.4m). The total tax charge was £2.5m (FY2013: £3.5m).

[7] financial performance metrics relate to continuing operations unless stated otherwise.

In the year legislation was enacted to allow UK companies to elect for the Research and Development Expenditure Credit (RDEC) on qualifying expenditure incurred since 1 April 2013, instead of the existing super-deduction rules. The Group elected to adopt the RDEC regime and an R&D tax credit of £0.3 million was realised through EBIT in the period.

The Group is evaluating the provisions of the UK Government's Patent Box regime and its potential applicability to the Bespak business and, as a result of the uncertainty that exists, has not currently assumed any benefit that may arise.

Dividend

The Board is proposing a final dividend per share of 13.35p (FY2013: 12.71p) such that the total dividend for the period amounts to 20.7p (FY2013: 19.71p) as set out in note 6. The final dividend will be paid on 24 October 2014 to shareholders on the register on 19 September 2014. Dividend cover, based on earnings before special items, was 2.35 times (FY2013: 2.8 times).

Special items from continuing operations

Special items from continuing operations of £0.3m include £0.8m of amortisation of intangible assets created on the acquisition of The Medical House in 2009 and £0.6m of acquisition related expenses offset by a related tax credit of £1.1m. The application of the lower tax rate to deferred tax liabilities (23% to 20%) creates a £0.9 million credit in tax treated as special. See note 2.

Discontinued operations

On 15 February 2013, Consort Medical completed the sale of King Systems to Ambu A/S, the results of which are reported within discontinued operations. At the time of sale, contingent consideration mechanisms were agreed as a central element of the value realisation from the disposal. The first of which was a £5.9m ($10.0m) lump sum payment upon the launch of the King Vision next generation blade. This was received in May 2014 following successful product launch. A further $2.3m was received on 4 June 2014 representing the amount due in respect of the FY2014 King Vision sales.

At 30 April 2014 the contingent consideration had a fair value of £11.2m as described in note 7. The special item in discontinued operations in the Income Statement of £0.7m represents the movement in fair value of this receivable of £0.5m due to foreign exchange and the re-phasing of the underlying sales assumptions partially offset by the unwinding of the discount and share based payment charges of £0.2m.

In the prior year the Group reported revenue from discontinued operations of £34.5m and profit before tax and special items from discontinued operations of £3.4m reflecting the trading results of King prior to disposal.

Investment in Atlas Genetics Ltd

In April 2014, the Group made a further investment of £0.4m in Atlas Genetics Ltd. This was the third tranche of the funding. The Group previously invested £1.2m in February 2011, £1.4m in July 2011 and £1.1m in July 2013. The Group's total investment to date now stands at £4.1m.

The Group now holds 17.4% of the equity, or 15.5% on a fully diluted basis. The other equity partners include Novartis Venture Funds, Johnson & Johnson Development Corporation, Life Science Partners and BB Biotech Ventures.

Substantial progress has been made in the last year in the Point of Care card development - in conjunction with Bespak - and with the development of the card reader and assay tests.

Bespak has retained its long term manufacturing rights to the disposable card used in the Atlas system and continues with an arm's length development contract to design for manufacture and scale up production of the disposable card. The Group will continue to account for Atlas as an equity investment in the accounts of Consort Medical plc.

Inorganic investment

Following the sale of King Systems in February 2013, the Group has significant cash resources available to invest in relevant and value enhancing investments and acquisitions. Such acquisitions would be appraised against strict criteria for closeness of strategic fit, availability, integration, valuation and the potential for value creation.

Balance sheet

The Group continues to have significant available cash resources with year-end net cash at £25.8m (FY2013: net cash £37.0m), with headroom of £73.3m under its undrawn banking facility and a further £25.0m available under the accordion facility. Gross assets were £143.7m (FY2013: £142.5m). The pension deficit decreased to £2.1m (FY2013: £11.8m) and is reviewed separately below. Provisions fell from £2.6m at the beginning of the period to £2.4m at 30 April 2014 following the Group's exit from its onerous property lease as described in note 2, net of an increase in Employee Benefit provisions for share based payments.

Cash flow, financing and liquidity[8]

Cash generated from operations[8] decreased by £5.8m to £19.2m (FY2013: £25.0m). EBITDA increased by £0.5m (2.0%) to £24.4m (FY2013: £24.0m). Working capital[9] increased by £4.0m to 24.1m (FY2013: £20.1m) mainly due to lower capital expenditure creditors related to timing of major project investments.

Capital expenditure of £16.3m (FY2013: £6.9m) was higher than the previous year as major programme investments were commissioned and installed. The ongoing investment required for this programme and the DEV610 programme can be met comfortably from the Group's existing financial resources, which continues to be in a net cash position of £25.8m.

The Group's principal bank facilities continue to be with the Royal Bank of Scotland (RBS) and HSBC in the form of two revolving credit facilities (RCFs). The first RCF is for $56m (undrawn at 30 April 2014) and the second RCF is for £40m (also undrawn at 30 April 2014). These facilities total £73.3m million and both expire in November 2016. Margins are between two and three percent over LIBOR depending upon the ratio of net debt to EBITDA prevailing at the time. A non-utilisation fee of 40% of the interest margin on the undrawn balance applies.

Under the terms of the refinancing, the Group also has a £25m "accordion" facility, by which further facilities may be made available by RBS and HSBC under the current terms to support significant investment or acquisition opportunities which may arise.

The Group maintains levels of sterling cash sufficient to meet imminent obligations and to be a reserve in case of an adverse event. These funds are invested with a range of reputable financial institutions approved by the Board.

With net cash on the balance sheet, the Group clearly remains comfortably within both its headroom and its covenants. Taking into account the cash balances available, the total headroom at the period end was £99.1m (FY2013: £113.0m).

Foreign currency exposure

The Group monitors its foreign currency exposures carefully and seeks to mitigate all material transactional exposures. The Group currently has low exposure to movements in the Euro and US dollar movements. Where necessary we buy or sell forward currency to protect current period transactions.

Pension scheme

Bespak operates a defined benefit pension scheme in the UK that is closed to new employees, who are eligible to join a defined contribution pension scheme (see note 10). As at 30 April 2014, the IAS19 deficit was £2.1m compared with £11.8m as at 30 April 2013. The movement was primarily as a result of favourable movements in discount rates and a review of other assumptions.

The Group completed its last triennial actuarial revaluation of the pension scheme as at 30 April 2011, at which point the pension scheme was in a small actuarial surplus. The next triennial actuarial valuation takes place as at 30 April 2014 and is currently in progress. Since the last Triennial valuation in 2011, prevailing discount rates have worsened, and it is expected that the revaluation may have worsened on this basis.

---

[8] cash flow performance metrics relate to continuing operations only and are before any cash paid relating to special items.
[9] working capital is defined as the total of inventory, trade and other receivables and trade and other payables.

Risk management

The Group considers effective risk management to be a high priority. Specific risk management activities are reviewed on pages 22-23 of the Annual Report. We are pleased to report that the Group incurred no material financial or business losses despite the riskier economic and business environment.

**Board Changes**

Ian Nicholson brings to Consort Medical extensive expertise and life sciences industry experience, and during the year the executive team, supported by the Board, took the decision to engage Ian's services in support of a number of business development opportunities. Cognisant of the UK Corporate Governance Code (2012), Ian has accordingly relinquished his membership of the Audit and Remuneration Committees, as he is no longer classed as an independent non-executive director.

Following her appointment as Chairman of Venture Life Group plc, Dr. Lynn Drummond has indicated her intention not to stand for re-election at the forthcoming AGM. On behalf of the Board and the Company, we would like to thank Lynn for her considerable contribution to the Group over the past three years.

Following Lynn's decision to stand down, the Company is working with advisers to appoint a further independent non-executive director to the Board.

After more than four years' service at Consort Medical, John Slater, our Legal Counsel and Group Company Secretary, retired on 30 April 2014. On behalf of the Board and the Company we would like to thank John for his sterling service, and to wish him a very happy retirement. The Board is pleased to announce the appointment of his successor, Iain Ward, as Group Legal Counsel and Company Secretary. Iain will join the Group on 14 July 2014 from Shire plc.

**Outlook**

Consort Medical has delivered solid revenue growth in FY2014, translating to margin and earnings expansion from volume and operating leverage, from our solid core business. This has been driven from both existing and new business streams, in line with our strategy. We have grown our development pipeline and launched new business from it during the year. We have developed and unveiled new products and concepts from our Innovation pipeline. Trading in the current year has started well, and is in line with our expectations.

The Board is confident of further future organic growth arising from existing business, from further conversion of development pipeline programmes and from new opportunities, including the conversion of the innovation pipeline to full development programmes with partners.

## Consolidated Income Statement

For the year ended 30 April 2014

| | Notes | 2014 Before special items £000 | 2014 Special items £000 (note 2, 9) | 2014 Total £000 | 2013 Before special Items * £000 | 2013 Special items £000 (note 2, 9) | 2013 Total * £000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | **100,010** | **–** | **100,010** | 95,044 | – | 95,044 |
| Operating expenses | | **(81,217)** | **(1,387)** | **(82,604)** | (76,967) | (1,521) | (78,488) |
| **Operating profit** | | **18,793** | **(1,387)** | **17,406** | 18,077 | (1,521) | 16,556 |
| Finance income | 3 | **201** | **–** | **201** | 92 | – | 92 |
| Finance costs | 3 | **(907)** | **–** | **(907)** | (2,053) | – | (2,053) |
| Other finance costs | 3 | **(560)** | **–** | **(560)** | (200) | – | (200) |
| **Profit before tax** | | **17,527** | **(1,387)** | **16,140** | 15,916 | (1,521) | 14,395 |
| Taxation | 4 | **(3,611)** | **1,117** | **(2,494)** | (3,132) | (376) | (3,508) |
| **Profit for the financial year from continuing operations** | | **13,916** | **(270)** | **13,646** | 12,784 | (1,897) | 10,887 |
| **(Loss)/profit for the financial year from discontinued operations** | 9 | **–** | **(678)** | **(678)** | 2,777 | 10,520 | 13,297 |
| **Profit for the financial year** | | **13,916** | **(948)** | **12,968** | 15,561 | 8,623 | 24,184 |

| | 2014 | 2013 |
|---|---|---|
| **Earnings per share, attributable to the owners of the parent (see note 5)** | | |
| From continuing operations: | | |
| Basic earnings per ordinary share | **47.4p** | 37.9p |
| Diluted earnings per ordinary share | **46.2p** | 36.8p |
| From continuing and discontinued operations: | | |
| Basic earnings per ordinary share | **45.1p** | 84.2p |
| Diluted earnings per ordinary share | **43.9p** | 81.7p |
| **Non-GAAP measures (see notes 2 & 5)** | | |
| From continuing operations: | **£000** | £000 |
| Profit before tax before special items | **17,527** | 15,916 |
| Profit after tax before special items | **13,916** | 12,784 |
| Adjusted basic earnings per ordinary share | **48.3p** | 44.5p |
| Adjusted diluted earnings per ordinary share | **47.1p** | 43.2p |

* Restated (see note 1).

# Consolidated Statement of Comprehensive Income

For the year ended 30 April 2014

| | **2014** | 2013 * |
|---|---|---|
| | **£000** | £000 |
| Profit for the year from continuing operations | **13,646** | 10,887 |
| (Loss)/profit for the year from discontinued operations | **(678)** | 13,297 |
| **Profit for the financial year** | **12,968** | 24,184 |
| | | |
| **Other comprehensive income** | | |
| *Items that may be reclassified subsequently to profit and loss:* | | |
| Fair value movements on cash flow hedges | **–** | 157 |
| Deferred tax on fair value movements on cash flow hedges | **–** | (38) |
| Cash flow hedges transferred from reserves on disposal of businesses | **–** | 275 |
| Exchange movements on translation of foreign subsidiaries | **(6)** | 1,791 |
| Current tax on exchange movements | **(5)** | (24) |
| Foreign exchange transferred from reserves on disposal of businesses | **–** | (2,693) |
| | | |
| *Items that will not be reclassified subsequently to profit and loss:* | | |
| Actuarial gain/(loss) on defined benefit pension scheme | **10,561** | (8,158) |
| Deferred tax on actuarial gains | **(2,429)** | 1,961 |
| Impact of change in tax rates | **(334)** | (210) |
| **Other comprehensive income/(loss) for the year** | **7,797** | (6,939) |
| **Total comprehensive income for the year** | **20,766** | 17,245 |
| **Attributable to the owners of the parent:** | | |
| From continuing operations | **21,433** | 5,447 |
| From discontinued operations | **(678)** | 11,798 |

* Restated (see note 1).

## Consolidated Balance Sheet

At 30 April 2014

| | Notes | 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **49,955** | 40,280 |
| Goodwill | | **15,800** | 15,800 |
| Other intangible assets | | **5,035** | 5,826 |
| Investments | | **4,068** | 3,650 |
| Trade and other receivables | | **4,841** | 5,424 |
| | | **79,699** | 70,980 |
| **Current assets** | | | |
| Inventories | | **10,203** | 11,745 |
| Trade and other receivables | | **27,975** | 22,778 |
| Derivative financial instruments | | **7** | – |
| Cash and cash equivalents | 8 | **25,843** | 36,966 |
| | | **64,028** | 71,489 |
| **Total assets** | | **143,727** | 142,469 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 8 | **–** | (2) |
| Trade and other payables | | **(15,479)** | (19,810) |
| Derivative financial instruments | | **–** | (55) |
| Current tax liabilities | | **(1,842)** | (2,061) |
| Provisions and other liabilities | | **(547)** | (687) |
| | | **(17,868)** | (22,615) |
| **Net current assets** | | **46,160** | 48,874 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **(3,429)** | (2,381) |
| Defined benefit pension scheme deficit | 10 | **(2,076)** | (11,766) |
| Provisions and other liabilities | | **(1,830)** | (1,952) |
| | | **(7,335)** | (16,099) |
| **Total liabilities** | | **(25,203)** | (38,714) |
| **Net assets** | | **118,524** | 103,755 |
| **Shareholders' equity** | | | |
| Share capital | | **2,928** | 2,921 |
| Share premium | | **33,675** | 33,406 |
| Retained earnings | | **81,758** | 67,254 |
| Other reserves | | **163** | 174 |
| **Total equity** | | **118,524** | 103,755 |

## Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 April 2014

| | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | | | | Other reserves | | |
| | Share capital £000 | Share premium £000 | Retained earnings £000 | Cash flow hedge reserve £000 | Translation reserve £000 | Total equity £000 |
| **Balance at 1 May 2012** | **2,901** | **32,667** | **54,009** | **(394)** | **1,100** | **90,283** |
| Profit for the financial year | – | – | 24,184 | – | – | 24,184 |
| Other comprehensive income/(loss): | | | | | | |
| Exchange movements on translation of foreign subsidiaries | – | – | – | – | 1,791 | 1,791 |
| Amounts transferred from reserves on disposal of businesses | – | – | – | 275 | (2,693) | (2,418) |
| Actuarial losses on defined benefit pension scheme | – | – | (8,158) | – | – | (8,158) |
| Fair value movements on cash flow hedges | – | – | – | 157 | – | 157 |
| Tax on amounts taken directly to equity | – | – | 1,751 | (38) | (24) | 1,689 |
| **Total comprehensive income/(loss)** | **–** | **–** | **17,777** | **394** | **(926)** | **17,245** |
| **Transactions with owners:** | | | | | | |
| Recognition of share-based payments | – | – | 1,587 | – | – | 1,587 |
| Movement on tax arising on share-based payments | – | – | 381 | – | – | 381 |
| Proceeds from exercise of employee options | 20 | 739 | – | – | – | 759 |
| Consideration paid for purchase of own shares (held in trust) | – | – | (1,000) | – | – | (1,000) |
| Equity dividends (note 6) | – | – | (5,500) | – | – | (5,500) |
| | 20 | 739 | (4,532) | – | – | (3,773) |
| **Balance at 30 April 2013** | **2,921** | **33,406** | **67,254** | **–** | **174** | **103,755** |
| Profit for the financial year | – | – | 12,968 | – | – | 12,968 |
| Other comprehensive income/(loss): | | | | | | |
| Exchange movements on translation of foreign subsidiaries | – | – | – | – | (6) | (6) |
| Actuarial gains on defined benefit pension scheme | – | – | 10,561 | – | – | 10,561 |
| Tax on amounts taken directly to equity | – | – | (2,763) | – | (5) | (2,768) |
| **Total comprehensive income/(loss)** | **–** | **–** | **20,766** | **–** | **(11)** | **20,755** |
| **Transactions with owners:** | | | | | | |
| Recognition of share-based payments | – | – | 1,821 | – | – | 1,821 |
| Movement on tax arising on share-based payments | – | – | 571 | – | – | 571 |
| Proceeds from exercise of employee options | 7 | 269 | – | – | – | 276 |
| Consideration paid for purchase of own shares (held in trust) | – | – | (2,874) | – | – | (2,874) |
| Equity dividends (note 6) | – | – | (5,780) | – | – | (5,780) |
| | 7 | 269 | (6,262) | – | – | (5,986) |
| **Balance at 30 April 2014** | **2,928** | **33,675** | **81,758** | **–** | **163** | **118,524** |

## Consolidated Cash Flow Statement

For the year ended 30 April 2014

| | Notes | 2014 £000 | 2013 * £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation from continuing operations | | **16,140** | 14,395 |
| (Loss)/profit before taxation from discontinued operations | | **(678)** | 13,212 |
| Finance income | | **(201)** | (92) |
| Finance costs | | **907** | 2,064 |
| Other finance costs | | **560** | 200 |
| Operating profit | | **16,728** | 29,779 |
| Depreciation | | **5,501** | 6,488 |
| Amortisation | | **983** | 2,216 |
| Profit on disposal of businesses | | **–** | (10,915) |
| Profit on disposal of property, plant and equipment | | **(12)** | (14) |
| Share-based payments | | **1,821** | 1,399 |
| Change in value of contingent consideration since disposal | | **518** | (186) |
| Pension charge in excess of cash contributions | | **386** | 26 |
| Decrease/(increase) in inventories | | **1,542** | (202) |
| Increase in trade and other receivables | | **(5,744)** | (3,257) |
| (Decrease)/increase in trade and other payables | | **(3,398)** | 1,626 |
| Decrease in provisions | | **(285)** | (1,054) |
| (Increase)/decrease in derivative financial instruments | | **(62)** | 150 |
| **Cash generated from operations** | | **17,978** | 26,056 |
| Interest paid | | **(643)** | (2,465) |
| Tax paid | | **(3,564)** | (3,576) |
| **Net cash inflow from operating activities** | | **13,771** | 20,015 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(16,134)** | (9,969) |
| Purchases of intangible assets | | **(158)** | (1,024) |
| Proceeds from sale of property, plant and equipment | | **31** | 322 |
| Net proceeds on disposal of businesses | | **–** | 74,697 |
| Interest received | | **227** | 70 |
| Purchase of equity investment | | **(418)** | (1,102) |
| **Net cash (outflow)/inflow from investing activities** | | **(16,452)** | 62,994 |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of ordinary share capital | | **276** | 759 |
| Purchase of own shares | | **(2,874)** | (1,000) |
| Equity dividends paid to shareholders | 6 | **(5,780)** | (5,500) |
| Proceeds from new bank funding | | **–** | 3,000 |
| Repayment of amounts borrowed | | **–** | (57,069) |
| Upfront loan facility fees | | **–** | (842) |
| Finance lease payments | | **(2)** | (1) |
| **Net cash used in financing activities** | | **(8,380)** | (60,653) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(11,061)** | 22,356 |
| Effects of exchange rate changes | | **(62)** | (75) |
| Cash and cash equivalents at start of year | 8 | **36,966** | 14,685 |
| **Cash and cash equivalents at end of year** | 8 | **25,843** | 36,966 |

* Restated (see note 1).

## Notes to the Accounts

### 1. Basis of preparation

The condensed consolidated financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The information has been extracted from the consolidated financial statements for the year ended 30 April 2014 approved by the Directors on 16 June 2014. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph nor any statement under Section 498 of the Companies Act 2006. The financial statements will be delivered to the Registrar of Companies after the Annual General Meeting. Statutory accounts of the Company in respect of the year ended 30 April 2013 were approved by the Board of Directors on 12 June 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph nor any statement under Section 498 of the Companies Act 2006.

The financial information prepared in accordance with the Group's IFRS accounting policies comprises the consolidated balance sheets as of 30 April 2014 and 30 April 2013, consolidated income statements, consolidated statements of comprehensive income, consolidated cash flow statements and consolidated statements of changes in shareholders' equity for the years ended 30 April 2014 and 30 April 2013, together with related notes. This financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority. In preparing this financial information management has used the principal accounting policies as set out in the Group's annual financial statements for the year ended 30 April 2014.

#### Special items and other non-GAAP performance measures

The directors believe that the "adjusted" profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how business performance is measured internally. The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with "adjusted" profit measures used by other companies. Further detail on the special items in the period can be found in note 2. The directors also refer to EBITDA (earnings before interest, tax, depreciation and amortisation) as a performance indicator. EBITDA also adds back any profit or loss on disposal of property, plant and equipment.

#### Changes to accounting policy and adoption of new accounting standards

With the scale and incidence of new business investment developments, the directors have reassessed the judgments made in accounting for tooling and equipment revenue, and have changed their accounting policy:

- From: accounting on a gross basis (i.e. recognising gross revenue from tooling and equipment with the related cost recorded in operating expenses);
- To: accounting for this on a net basis, having regard to the transfer of risks and rewards.

This accounting policy change is reflected as a prior year adjustment with comparatives restated accordingly with a reduction in both revenue and operating expenses for the year ended 30 April 2013 of £6.3m. Trade receivables and trade payables have reduced by £2.1m and £2.2m respectively with a matching increase in other receivables and other payables. There is no impact on basic or diluted EPS.

IAS 19 (revised) "Employee benefits" amends the accounting for employment benefits. The group has applied the standard retrospectively in accordance with the transition provisions of the standard. The impact on the group has been as follows:

- The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. There is no change to determining the discount rate; this continues to reflect the yield on high-quality corporate bonds. This has increased the income statement charge as the discount rate applied to assets is lower than the expected return on assets. This has no effect on total comprehensive income as the increased charge in profit or loss is offset by a credit in other comprehensive income. The effect has been that the income statement charge for the year to 30 April 2013 by £272,000.
- Under IAS 19, interest on the service cost was allowed to be apportioned between net finance costs and service costs in the income statement. Under the revised standard, the Company is required to report all of this interest within the service cost. This has increased operating expenses and reduced finance costs for the year to 30 April 2013 by £26,000. There is no impact on total profit.
- The tax effect of the above entries reduces the tax charge in the income statement and increase the tax charge in equity by £62,000 for the year to 30 April 2013.
- There is a new term ''remeasurements''. This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost.
- The effect of the change in accounting policy has no impact on the consolidated balance sheet or consolidated cash flow statement and the impact on earnings per share is immaterial.

IFRS 13 "Fair value measurement" measurement and disclosure requirements and Amendments to IAS 1 "Presentation of financial statements" are applicable for the financial year commencing 1 May 2013.

## Notes to the Accounts (continued)

### 2. Special items

To improve the understanding of the Group's financial performance, items which do not reflect the underlying performance are:

| | 2014 | 2013 |
|---|---|---|
| | £000 | £000 |
| **Continuing operations** | | |
| Employee severance costs | **–** | (102) |
| Plant restructuring and recall credit/(costs) | **39** | (507) |
| Acquisition-related expenses | **(598)** | (83) |
| | **(559)** | (692) |
| Amortisation of acquisition-related intangible assets | **(828)** | (829) |
| Special items before taxation | **(1,387)** | (1,521) |
| Special tax item – deferred tax credit as a result of the UK Corporate rate change | **850** | – |
| Special tax item – deferred tax charge as a result of change of use of industrial building | **–** | (752) |
| Tax on special items | **267** | 376 |
| Special items after taxation from continuing operations | **(270)** | (1,897) |

Amortisation of acquired intangible assets represents the charge for other intangible assets acquired with The Medical House in 2009. Plant restructuring and recall credit relates to the exit from an onerous property lease during the year.

Acquisition-related expenses are diligence costs incurred in investigating potential investment opportunities.

The special tax item is in respect of a significant tax credit arising as the Group's deferred tax assets and liabilities are revalued using the lower rate of UK Corporate Tax of 20% (reduced from 23%).

In the prior year employee severance costs were in respect of the restructuring of UK operations. Plant restructuring and recall costs included a charge for an onerous property lease. The special tax item was in respect of a one off tax charge arising due to the re-opening of the site at Milton Keynes which changed the tax basis of the valuation of the industrial buildings requiring the recognition of a deferred tax liability.

Special items from discontinued operations are described in note 9.

### 3. Finance income/(costs)

| | 2014 | 2013 * |
|---|---|---|
| | £000 | £000 |
| Interest on deposits | **201** | 92 |
| **Finance income** | **201** | 92 |
| Interest on bank overdraft and loans including amortised fees | **(907)** | (2,053) |
| **Finance costs** | **(907)** | (2,053) |
| Net interest cost on defined benefit scheme (note 10) | **(485)** | (144) |
| Unwinding of discount on provisions | **(33)** | (56) |
| Foreign exchange gains and losses | **(42)** | – |
| **Other finance costs** | **(560)** | (200) |

* Restated (see note 1).

## Notes to the Accounts (continued)

### 4. Taxation

The major components of income tax expense are:

| | 2014 £000 | 2013 * £000 |
|---|---|---|
| **Current income tax from continuing operations** | | |
| UK corporation tax | **4,058** | 3,828 |
| Deferred tax | **(1,564)** | (320) |
| | **2,494** | 3,508 |
| The tax charge from continuing operations reported is analysed between: | | |
| Tax on profit before special items | **3,611** | 3,132 |
| Tax on special items | **(267)** | (376) |
| Special tax item – deferred tax credit as a result of the UK Corporate rate change | **(850)** | – |
| Special tax item – deferred tax charge as a result of change of use of industrial building | **–** | 752 |
| | **2,494** | 3,508 |

* Restated (see note 1).

### 5. Earnings per share

| **Earnings** | 2014 £000 | 2013 * £000 |
|---|---|---|
| **Continuing operations** | | |
| **Basic and diluted:** | | |
| Profit for the year – attributable to ordinary shareholders | **13,646** | 10,887 |
| Add back: Special items after taxation | **270** | 1,897 |
| Adjusted earnings | **13,916** | 12,794 |
| **Discontinued operations** | | |
| **Basic and diluted:** | | |
| (Loss)/profit for the year – attributable to ordinary shareholders | **(678)** | 13,297 |
| Add back: Special items after taxation | **678** | (10,520) |
| Adjusted earnings | **–** | 2,777 |
| **Total** | | |
| **Basic and diluted:** | | |
| Profit for the year – attributable to ordinary shareholders | **12,968** | 24,194 |
| Add back: Special items after taxation | **948** | (8,623) |
| Adjusted earnings | **13,916** | 15,571 |

* Restated (see note 1).

| | 2014 Number | 2013 Number |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue | **29,248,817** | 29,136,767 |
| Weighted average number of shares owned by Employee Share Ownership Trust | **(464,819)** | (413,712) |
| Average number of ordinary shares in issue for basic earnings | **28,783,998** | 28,723,055 |
| Dilutive impact of share options outstanding | **745,627** | 864,992 |
| Diluted weighted average number of ordinary shares in issue | **29,529,625** | 29,588,047 |

## Notes to the Accounts (continued)

**5. Earnings per share (continued)**

| | **2014 Pence** | 2013 * Pence |
|---|---|---|
| **Earnings per share** | | |
| **Continuing operations:** | | |
| Basic adjusted | **48.3** | 44.5 |
| Basic unadjusted | **47.4** | 37.9 |
| Diluted adjusted | **47.1** | 43.2 |
| Diluted unadjusted | **46.2** | 36.8 |
| **Discontinued operations:** | | |
| Basic adjusted | **–** | 9.7 |
| Basic unadjusted | **(2.4)** | 46.3 |
| Diluted adjusted | **–** | 9.4 |
| Diluted unadjusted | **(2.4)** | 44.9 |
| **Total:** | | |
| Basic adjusted | **48.3** | 54.2 |
| Basic unadjusted | **45.1** | 84.2 |
| Diluted adjusted | **47.1** | 52.6 |
| Diluted unadjusted | **43.9** | 81.7 |

* Restated (see note 1).

**6. Dividends**

Dividends declared and paid during the year:

| | **2014 £000** | 2013 £000 |
|---|---|---|
| Final dividend for 2013 of 12.71p per share (2013: final dividend for 2012 of 12.1p per share) | **3,659** | 3,483 |
| Interim dividend paid of 7.35p per share (2013: 7.0p) | **2,121** | 2,017 |
| | **5,780** | 5,500 |

In addition, the directors are proposing a final dividend in respect of the year ended 30 April 2014 of 13.35p per share, which will absorb an estimated £3.9m of shareholders' equity. It will be paid on 24 October 2014 to shareholders who are on the register on 19 September 2014.

## Notes to the Accounts (continued)

### 7. Financial assets and liabilities

The following table sets out the classification of the Group's financial assets and liabilities. Receivables and payables have been included to the extent that they are classified as financial assets and liabilities in accordance with IAS 32 "Financial Instruments: Presentation". Provisions have been included where there is a contractual obligation to settle in cash.

| Financial assets | **2014 £000** | 2013* £000 |
|---|---|---|
| **Cash and cash equivalents **** | **25,483** | 36,966 |
| Trade receivables | **13,579** | 11,023 |
| Other receivables | **3,574** | 3,134 |
| **Total loans and receivables **** | **17,153** | 14,157 |
| Contingent consideration | **11,157** | 11,676 |
| Equity investment in Atlas Genetics Limited *** | **4,068** | 3,650 |
| **Total available-for-sale financial assets** | **15,225** | 15,326 |
| **Fair value through profit and loss – currency exchange contracts** | **7** | **–** |

| Financial liabilities | **2014 £000** | 2013 £000 |
|---|---|---|
| Trade payables | **(6,133)** | (11,362) |
| Other creditors and accruals | **(10,221)** | (7,712) |
| **Total amortised cost **** | **(16,354)** | (19,074) |
| **Fair value through profit and loss – currency exchange contracts** | **–** | (55) |

* Restated (see note 1).

** The directors consider that the carrying value amounts of these financial assets and liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

*** The equity investment in Atlas Genetics is an unquoted investment and therefore held at cost, less any provision for impairment as its fair value cannot be measured reliably in the absence of an active market.

All financial liabilities have a contractual maturity date that is less than 6 months from the balance sheet date.

The methods and assumptions used to estimate the fair values of financial assets and liabilities are as follows:

- Forward exchange contracts – based on market prices and exchange rates at the balance sheet date;
- Interest rate swaps – based on the market values at the balance sheet date;
- Contingent consideration – the discounted value of anticipated future receipts.

The following tables categorise the Group's financial assets and liabilities held at fair value by the valuation methodology applied in determining fair value. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model are based on observable market data. In other cases the instrument is classified as Level 3.

| **Financial assets at fair value** | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
|---|---|---|---|---|
| **At 30 April 2014** | | | | |
| Contingent consideration | **–** | **–** | **11,157** | **11,157** |
| Currency exchange contracts | **–** | **7** | **–** | **7** |
| **Total** | **–** | **7** | **11,157** | **11,164** |
| **At 30 April 2013** | | | | |
| Contingent consideration | – | – | 11,676 | 11,676 |
| **Total** | – | – | 11,676 | 11,676 |

## Notes to the Accounts (continued)

### 7. Financial assets and liabilities (continued)

| Financial liabilities at fair value | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| **At 30 April 2014** | | | | |
| Currency exchange contracts | **–** | **–** | **–** | **–** |
| **Total** | **–** | **–** | **–** | **–** |
| **At 30 April 2013** | | | | |
| Currency exchange contracts | – | (55) | – | (55) |
| **Total** | – | (55) | – | (55) |

Under the terms of the disposal of King Systems, completed on 15 February 2013, the purchaser, Ambu A/S, is due to pay amounts of consideration contingent upon the performance of King following disposal. This comprises:

- a milestone payment of US$10m upon completion of the first commercial sale of a video laryngoscope currently under development by King with a reusable display and an adaptor containing reusable optics and a disposable blade;
- payments with a potential maximum value of US$40m related to the sales of King Vision products for the three years ending 30 April 2016.

On 9 May 2014, US$10 million was received from Ambu A/S following the first commercial sale of a video laryngoscope. On 4 June 2014, US$2.3 million was received from Ambu A/S reflecting the first payment relating to the sales of the King Vision products for the year ending 30 April 2014. Further cash payments are potentially due dependent on sales of King Vision products in the years ending 30 April 2015 and 30 April 2016 including a true-up mechanism on completion of the three years to 30 April 2016.

The fair value of contingent consideration is valued at £11.2m (30 April 2013: £11.7m). The reduction of £0.5m primarily due to foreign exchange (£0.9m), the re-phasing of the underlying sales assumptions (£0.3m) partially offset by the unwinding of the discount with the passage of time (£0.7m) and is recognised in discontinued operations special items in the income statement. A reduction in the forecast sales by 10% would reduce the fair value of the receivable by £0.4m and an increase in the forecast sales by 10% would increase the fair value of the receivable by £0.4m.

### 8. Net cash

| | **2014** **£000** | 2013 £000 |
|---|---|---|
| Cash and cash equivalents | **25,843** | 36,966 |
| Obligations under finance leases – amounts payable within one year | **–** | (2) |
| **Net cash** | **25,843** | 36,964 |

***Reconciliation of net cash flow to movement in net cash/(debt):***

| | **2014** **£000** | 2013 £000 |
|---|---|---|
| Net cash/(debt) at the beginning of the year | **36,964** | (37,653) |
| Net (decrease)/increase in cash | **(11,061)** | 22,356 |
| Proceeds from new bank funding | **–** | (3,000) |
| Repayment of amounts borrowed | **–** | 57,069 |
| Finance lease payments | **2** | 1 |
| Effects of exchange rate changes | **(62)** | (1,809) |
| **Net cash at the end of the year** | **25,843** | 36,964 |

## Notes to the Accounts (continued)

### 9. Discontinued operations

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

| | **2014 Before special Items £000** | **2014 Special items £000** | **2014 Total £000** | 2013 Before special items £000 | 2013 Special items £000 | 2013 Total £000 |
|---|---|---|---|---|---|---|
| Revenue | **–** | **–** | **–** | 34,486 | – | 34,486 |
| Operating expenses before special items | **–** | **–** | **–** | (31,110) | – | (31,110) |
| Finance costs | **–** | **–** | **–** | (11) | – | (11) |
| **Profit before tax and special items** | **–** | **–** | **–** | 3,365 | – | 3,365 |
| Special items | **–** | **(159)** | **(159)** | – | (1,068) | (1,068) |
| **(Loss)/profit before tax of discontinued operations** | **–** | **(159)** | **(159)** | 3,365 | (1,068) | 2,297 |
| Taxation | **–** | **–** | **–** | (588) | 673 | 85 |
| (Loss)/profit after tax of discontinued operations | **–** | **(159)** | **(159)** | 2,777 | (395) | 2,382 |
| Net (loss)/gain on disposal | **–** | **(519)** | **(519)** | – | 10,915 | 10,915 |
| Net (loss)/profit attributable to discontinued operations | **–** | **(678)** | **(678)** | 2,777 | 10,520 | 13,297 |

Special items from discontinued operations of £0.7 million relate to the movement in the value of the contingent consideration receivable of £0.5 million and share based payment charges of £0.2 million. In the prior year, special items from discontinued operations included the amortisation of intangible assets (£1.1m) and certain plant restructuring costs (£0.2m) offset by a credit relating to the movement in the value of the contingent consideration receivable of £0.2m.

### 10. Defined benefit pension scheme

The movement in the defined benefit pension scheme deficit is as follows:

| | **Present value of obligation £000** | **Fair value of plan assets £000** | **Total £000** |
|---|---|---|---|
| At 1 May 2013 | 91,276 | (79,510) | 11,766 |
| Current service cost | 1,351 | – | 1,351 |
| Interest expense / (income) | 3,897 | (3,412) | 485 |
| Amount charged / (credited) to the income statement | 5,248 | (3,412) | 1,836 |
| Return on plan assets (excluding amounts included within interest) | – | (940) | (940) |
| Gain from changes in demographic assumptions | (1,639) | – | (1,639) |
| Gain from changes in financial assumptions | (7,982) | – | (7,982) |
| Amount credited to equity | (9,621) | (940) | (10,561) |
| Employer contributions | – | (965) | (965) |
| Plan participant contributions | 2 | (2) | – |
| Benefit payments | (1,299) | 1,299 | – |
| **At 30 April 2014** | **85,606** | **(83,530)** | **2,076** |