



A close-up, high-resolution photograph of a human eye. The iris is a vibrant green color with a complex, fibrous texture. The pupil is dark and centered. The surrounding sclera and eyelids are a warm, light brown color. The eyelashes are dark and appear slightly out of focus, framing the eye. The overall lighting is soft and natural, highlighting the intricate details of the eye's anatomy.

**Optos plc is a leading retinal imaging company with a vision to be recognised as the leading provider of retinal diagnostics through leveraging its unique wide-field imaging technology.**

- 01** Financial and Operating Highlights
- 02** Interim Business and Financial Review
- 06** Statement of Directors' Responsibilities
- 07** Consolidated Income Statement
- 08** Consolidated Balance Sheet
- 09** Consolidated Statement of Changes in Equity
- 10** Consolidated Cash Flow Statement
- 11** Notes to the Interim Financial Statements
- 19** Independent Review Report to Optos plc
- 20** Directors and Advisers

# Financial and Operating Highlights

## Financial

|   | Six months ended<br>31 March 2009<br>(unaudited)<br>\$m | Six months ended<br>31 March 2008<br>(unaudited)<br>\$m |
|---|---|---|
| Revenue   | 47.8  | 48.9  |
| Operating profit after share-based payments (pre-exceptional) | 3.1   | 4.6   |
| Exceptional items   | 4.9   | –   |
| Operating (loss)/profit after share-based payments            | (1.8)   | 4.6   |
| Profit after tax (pre-exceptional)                            | 0.1   | 0.7   |
| (Loss)/profit after tax                                       | (4.4)   | 0.7   |
| EPS diluted after tax (cents)                                 | (6.4)c  | 1.0c  |
| Cash flow from operating activities                           | 15.3  | 19.4  |

## Operating

- Good progress being made on strategic changes announced at recent AGM:
  - Overhead reductions at the upper end of the 10%-20% target already achieved
  - New sales force structure implemented
  - New customer value propositions for recessionary times developed
- Pay-per-patient revenues up 4% with growth in all markets:
  - North America revenues up 2%
  - European revenues up 34%
- Pay-per-patient revenues on target for >\$90 million in the full year
- Renewals rate consistent with target of >80% over the full year
- Business now focused on core optometry market

“Despite 2009 being a challenging year, we have made a good start towards achieving our vision to be recognised as the leading provider of retinal diagnostics through leveraging our unique wide-field imaging technology. I believe the steps we are taking and the renewed focus on our core optometry business will drive improved business performance in the medium term. We are focusing on the pay-per-patient business and while we anticipate modest placement growth in 2010 we expect a return to increased levels of growth in 2011 and beyond.”

Roy Davis, Chief Executive Officer

# Interim Business and Financial Review



Roy Davis Chief Executive Officer

## Strategic Development Sharpening the Focus

Total revenues for the first half of 2009 were \$47.8 million (2008: \$48.9 million) and in line with expectations reflecting the Group's focus on pay-per-patient revenues and reduced emphasis on capital sales.

Pay-per-patient income increased by 4% to \$46.4 million (2008: \$44.7 million). This growth was delivered through a combination of continued expansion of our North American operations which grew by 2% and further strong progress in Europe where we saw revenues grow by 34%. Pay-per-patient income represented 97% (2008: 91%) of total revenues in the period.

In North America revenue growth was impacted by the current economic downturn which adversely affected consumer confidence, leading to reduced footfall into US optometry practices and consequently lower usage levels of the Company's medical devices from October 2008. Since that time usage levels have remained relatively constant albeit at the lower level and this has limited the revenue growth seen in that market during the period.

The Company continued to trade well in Europe. Germany is now the largest market in Europe and saw sales increase by 60%. Progress on geographical expansion continues with increasing revenues from the recently opened markets of Norway, France and Spain.

Capital equipment sales of \$1.4 million (2008: \$4.2 million) in revenues reflect the reduced emphasis now being placed on these sales.

Optos has built an extensive installed base for its technology. The Group closed the period with 3,788 customers operating on pay-per-patient agreements. Although well ahead of the 3,489 pay-per-patient agreements in place at the same time last year, this represents a small net reduction in customers during the period from 3,825 at the year end. This reflects a slowdown in the number of new customers joining the business, combined with customer losses through non-renewal at the end of their existing contract terms. New customer numbers were affected by economic uncertainty, with doctors seeking to avoid making longer term

The plan to achieve this vision is to:

- Simplify and restructure the organisation based around global functions to focus on delivering outstanding customer service to optometrists and their patients reducing overheads by 10%-20%;
- Improve asset utilisation in the installed base to strengthen the recurring revenue stream;
- Reduce reliance on capital sales of equipment;
- Deliver a customer value proposition for recessionary times;
- Demonstrate clinically that the **optomap**® retinal exam is a standard of care in wellness screening;
- Continue to develop the core technology platform, including a lower cost variant for smaller practices, and supporting software packages; and
- Expand selectively internationally.

Having clarified the focus on the core optometry market, expansion into ophthalmology will then be undertaken in a measured way.

for more information: [www.optos.com](http://www.optos.com)

commitments at this time. This uncertainty also contributed to lower levels of customer renewals which were 83% (2008: 89%) during the period, although this represented an improvement over the 79% reported at the end of the first quarter. This is consistent with achieving the full year target of greater than 80%.

Gross margins fell to 61.5% (2008: 65.1%) primarily due to the impact of lower device usage levels at customer sites which reduced the average revenue per site by 10%. These usage levels are key to delivering higher margins and efforts are being made to improve these through changes in the sales force structure and incentive compensation together with changes to the customer value proposition.

Net overheads pre-exceptional items were \$27.9 million (2008: \$26.2 million) and included a charge of \$1.4 million (2009: credit of \$0.5 million) in respect of the currency exchange translation primarily on intercompany loans. Operating profit and earnings levels before exceptional items were well down on prior year due to the currency translation

charges described above. When this item is excluded from both reporting periods the profit from underlying trading is up 10% versus prior year.

As part of the strategic changes announced at the AGM, exceptional charges of \$4.9 million (2008: \$nil) were incurred, and are explained more fully in note 4 to the accounts. These charges include the costs of staff redundancy, charges for impairment to R&D intangible assets driven by the decision to focus on the core optometry business, and inventory write-downs.

Cash closed the period at \$21.5 million (2008: \$25.2 million). Cash flow from operations during the period reduced, reflecting lower earnings and increased levels of working capital. Working capital increases reflect the reduced demand for new installations of devices in all markets and the lag time required to amend supply chain commitments.

Net cash flows used in investing were down on prior year. The reduction reflects lower levels of expenditure in plant, property and equipment as a result of fewer new devices being installed in the marketplace.

## Interim Business and Financial Review continued

The Company's medical devices capture an ultra wide-field image of approximately 82% of the retina



Net cash flows from financing activities were negative versus prior year as lower levels of new installs reduced the cash received from funding of new placements, and capital repayments continued per plan. The Group continues to partner with two sources of vendor finance from which it has access to funds at competitive rates. The Company is in discussion with several other sources of vendor finance and constantly reviews other options as part of its treasury management.

### Strategic development

As previously reported a detailed review and assessment of the operational and strategic issues facing the business in the current economic environment was completed in February and its outcomes herald the next stage in the development of the Company.

The Company has built an extensive installed base for its technology among healthcare professionals under its pay-per-patient business model. This provides an excellent position from which to focus on its core optometry business with the vision to be recognised as the leading provider of retinal diagnostics through leveraging its wide-field imaging technology.

The plan to achieve this vision is to:

- Simplify and restructure the organisation based around global functions to focus on delivering outstanding customer service to optometrists and their patients reducing overheads by 10%-20%;

- Improve asset utilisation in the installed base to strengthen the recurring revenue stream;
- Reduce reliance on capital sales of equipment;
- Deliver a customer value proposition for recessionary times;
- Demonstrate clinically that the **optomap**<sup>®</sup> retinal exam is a standard of care in wellness screening;
- Continue to develop the core technology platform, including a lower cost variant for smaller practices, and supporting software packages; and
- Expand selectively internationally.

Having clarified the focus on the core optometry market, expansion into ophthalmology will then be undertaken in a measured way.

### Progress

Good progress is being made against the individual elements of the plan outlined above.

As can be seen from the financial performance in the period to 31 March 2009, the focus is now on recurring revenues from the pay-per-patient model, with a reduced emphasis on capital equipment sales.

The organisation has been simplified and restructured. The senior team has been reduced, strengthened and focused on a global functional basis. Key new appointments include Global Heads of Sales, Marketing and R&D. Against the current run rate, overhead reductions towards the top of the target 10%-20% range have already been achieved. As recently announced, the Board has also been reviewed and restructured.

“With a renewed focus on recurring pay-per-patient revenues, modest placement growth anticipated in 2010 but increased levels of growth expected in 2011 and beyond, we believe the future outlook is positive.”

Focusing on customer relationships, the priority is to increase asset utilisation in the existing installed base. On average from the existing installed base, optometrists use an **optomap**<sup>®</sup> retinal exam in around one-third of the total practice eye exams providing us with an opportunity to significantly increase revenues. A single global sales team has been established and will be appropriately incentivised to increase asset utilisation levels and maintain customer renewal rates. Similarly, a new customer service function is now in operation to support the efforts of the sales team.

To help optometrists access our technology in difficult economic times we have developed **optomap**<sup>®</sup> Express, a ‘pay as you go’ offering that overcomes initial concerns regarding contractual term and minimum payments in uncertain times. This is currently being launched into the market place. We have also launched 2-year and 1-year versions of our regular pay-per-patient contracts to allow more flexibility for potential customers concerned about the contractual term.

Future growth will be secured by building on the strengths of the existing installed base. For example, a new low-cost product will be scoped that will target lower volume practices to gain market share, and new products, such as digital image storage, are being developed. At the same time opportunities are being sought to increase the leverage of clinical research publication where this was facilitated by the Company’s technology.

#### **Outlook**

Despite 2009 being a challenging year, Optos has made a good start towards achieving its vision.

The current global recession continues to affect confidence, particularly in the more marginal installations. Despite that, the market for retinal diagnostics is large with some 85 million comprehensive eye exams being conducted by US optometrists every year. This represents a significant opportunity for Optos’s ultra wide-field imaging technology which remains unique in this market.

The revised strategic approach is designed to drive improved business performance in the medium term by improving asset utilisation in our installed base. With a renewed focus on recurring pay-per-patient revenues, modest placement growth anticipated in 2010 but increased levels of growth expected in 2011 and beyond, we believe the future outlook is positive.

**Roy Davis**  
Chief Executive Officer  
20 May 2009

# Statement of Directors' Responsibilities

## Principal risks and uncertainties, and forward-looking statements

The Directors of Optos plc are listed in the Group's Annual Report and Accounts for the year ended 30 September 2008.

The Directors confirm that this Interim Report has been prepared in accordance with the Disclosure and Transparency Rules ('DTR') 4.2.10R where to the best of their knowledge:

- (a) the condensed set of financial statements, which have been prepared in accordance with IAS 34, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R; and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R.

The principal risks and uncertainties which affect the Group have not materially changed since the year ended 30 September 2008, for which a detailed explanation of those risks and uncertainties can be found in the Business Review section of the Annual Report and Accounts for the year ended 30 September 2008 and that these properly reflect the risks and uncertainties in respect of the six-month period ended 31 March 2009.

Certain statements made in this Interim Report are forward-looking statements. These forward-looking statements are not historical facts but rather are based on the Company's current expectations, estimates and projections about its industry, its beliefs and assumptions. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors, some of which are beyond the Company's control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. The Company cautions shareholders and prospective shareholders not to place undue reliance on these forward-looking statements, which reflect the view of the Company only as of the date of this Interim Report. The forward-looking statements made in this Interim Report relate only to events as of the date on which the statements are made. The Company will not undertake any obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this Interim Report except as required by law or by any appropriate regulatory authority.

ON BEHALF OF THE BOARD

**John McNeil**  
Company Secretary  
20 May 2009

# Consolidated Income Statement

## For the period ended 31 March 2009

Six months ended 31 March 2009

|  | Notes | Before<br>exceptional<br>items<br>(Unaudited)<br>\$'000 | Exceptional<br>items<br>(Note 4)<br>(Unaudited)<br>\$'000 | Total<br>(Unaudited)<br>\$'000 | Six months<br>ended<br>31 March<br>2008<br>(Unaudited)<br>\$'000 | Year<br>ended<br>30 September<br>2008<br>(Audited)<br>\$'000 |
|--|-------|---|---|--------------------------------|--|--|
| <b>Revenue</b>   | 5     | <b>47,821</b>   | –   | <b>47,821</b>                  | 48,919   | 100,812  |
| Cost of sales  |       | <b>(18,398)</b>   | –   | <b>(18,398)</b>                | (17,094)   | (36,588)   |
| <b>Gross profit</b>  |       | <b>29,423</b>   | –   | <b>29,423</b>                  | 31,825   | 64,224   |
| Selling and distribution costs   |       | <b>(11,296)</b>   | <b>(100)</b>  | <b>(11,396)</b>                | (11,324)   | (21,052)   |
| Administrative expenses  |       | <b>(16,613)</b>   | <b>(4,783)</b>  | <b>(21,396)</b>                | (14,862)   | (31,183)   |
| <b>Operating (loss)/profit before<br/>share-based payments</b>                           |       | <b>1,514</b>  | <b>(4,883)</b>  | <b>(3,369)</b>                 | 5,639  | 11,989   |
| Share-based payments   | 6     | <b>1,602</b>  | –   | <b>1,602</b>                   | (1,007)  | (293)  |
| <b>Operating (loss)/profit after<br/>share-based payments</b>                            |       | <b>3,116</b>  | <b>(4,883)</b>  | <b>(1,767)</b>                 | 4,632  | 11,696   |
| Finance revenue  |       | <b>103</b>  | –   | <b>103</b>                     | 381  | 571  |
| Finance costs  |       | <b>(3,196)</b>  | –   | <b>(3,196)</b>                 | (3,165)  | (6,373)  |
| <b>(Loss)/profit from continuing<br/>operations before taxation</b>                      |       | <b>23</b>   | <b>(4,883)</b>  | <b>(4,860)</b>                 | 1,848  | 5,894  |
| Income tax credit/(charge)   | 7     | <b>90</b>   | <b>356</b>  | <b>446</b>                     | (1,170)  | (1,278)  |
| <b>(Loss)/profit for the period<br/>attributable to equity holders<br/>of the parent</b> |       | <b>113</b>  | <b>(4,527)</b>  | <b>(4,414)</b>                 | 678  | 4,616  |
| <b>(Loss)/profit before taxation<br/>per ordinary share</b>                              |       |   |   |                                |  |  |
| Basic  | 8     | <b>0.0c</b>   |   | <b>(7.0)c</b>                  | 2.7c   | 8.5c   |
| Diluted  | 8     | <b>0.0c</b>   |   | <b>(7.0)c</b>                  | 2.6c   | 8.4c   |
| <b>(Loss)/profit after taxation<br/>per ordinary share</b>                               |       |   |   |                                |  |  |
| Basic  | 8     | <b>0.2c</b>   |   | <b>(6.4)c</b>                  | 1.0c   | 6.7c   |
| Diluted  | 8     | <b>0.2c</b>   |   | <b>(6.4)c</b>                  | 1.0c   | 6.6c   |

# Consolidated Balance Sheet

## As at 31 March 2009

|  | Notes | As at<br>31 March<br>2009<br>(Unaudited)<br>\$'000 | As at<br>31 March<br>2008<br>(Unaudited)<br>\$'000 | As at<br>30 September<br>2008<br>(Audited)<br>\$'000 |
|--|-------|--|--|--|
| <b>Non-current assets</b>                                  |       |  |  |  |
| Property, plant and equipment                              | 9     | 89,370   | 89,667   | 93,240   |
| Intangible assets  | 10    | 10,391   | 12,155   | 13,226   |
| Deferred tax asset   | 7     | 9,858  | 9,167  | 9,223  |
| <b>Total non-current assets</b>                            |       | <b>109,619</b>                                     | 110,989  | 115,689  |
| <b>Current assets</b>                                      |       |  |  |  |
| Inventories  |       | 8,439  | 6,619  | 8,227  |
| Trade and other receivables                                |       | 11,418   | 14,672   | 15,393   |
| Cash and cash equivalents                                  | 11    | 21,541   | 25,158   | 27,466   |
| Income tax receivable                                      |       | 35   | –  | –  |
| <b>Total current assets</b>                                |       | <b>41,433</b>                                      | 46,449   | 51,086   |
| <b>Total assets</b>  |       | <b>151,052</b>                                     | 157,438  | 166,775  |
| <b>Current liabilities</b>                                 |       |  |  |  |
| Trade and other payables                                   |       | (10,534)   | (15,305)   | (15,365)   |
| Financial liabilities                                      | 12    | (31,398)   | (39,176)   | (32,430)   |
| Provisions   |       | –  | (29)   | (10)   |
| Government grants  |       | (172)  | (118)  | (143)  |
| Income tax payable   |       | –  | (58)   | (222)  |
| <b>Total current liabilities</b>                           |       | <b>(42,104)</b>                                    | (54,686)   | (48,170)   |
| <b>Total assets less current liabilities</b>               |       | <b>108,948</b>                                     | 102,752  | 118,605  |
| <b>Non-current liabilities</b>                             |       |  |  |  |
| Financial liabilities                                      | 12    | (49,343)   | (41,129)   | (53,462)   |
| Provisions   |       | (19)   | (701)  | (431)  |
| Government grants  |       | (683)  | (854)  | (780)  |
| <b>Total non-current liabilities</b>                       |       | <b>(50,045)</b>                                    | (42,684)   | (54,673)   |
| <b>Net assets</b>  |       | <b>58,903</b>                                      | 60,068   | 63,932   |
| <b>Equity attributable to equity holders of the parent</b> |       |  |  |  |
| Issued capital   |       | 2,486  | 2,468  | 2,486  |
| Share premium  |       | 116,704  | 116,425  | 116,704  |
| Retained earnings  |       | (60,022)   | (57,867)   | (54,428)   |
| Other reserves   |       | (265)  | (958)  | (830)  |
| <b>Total equity</b>  |       | <b>58,903</b>                                      | 60,068   | 63,932   |

# Consolidated Statement of Changes in Equity

## For the period ended 31 March 2009

|  | Share capital<br>\$'000 | Share premium<br>\$'000 | Retained earnings<br>\$'000 | Foreign exchange<br>\$'000 | Total<br>\$'000 |
|--|-------------------------|-------------------------|-----------------------------|----------------------------|-----------------|
| <b>At 1 October 2007</b>                   | 2,453                   | 115,682                 | (59,884)                    | (623)                      | 57,628          |
| Exchange differences on foreign operations | –                       | –                       | –                           | (335)                      | (335)           |
| Profit for the period                      | –                       | –                       | 678                         | –                          | 678             |
| Total income and expenses for the period   | –                       | –                       | 678                         | (335)                      | 343             |
| Issue of ordinary share capital            | 15                      | 743                     | –                           | –                          | 758             |
| Share-based payments                       | –                       | –                       | 1,339                       | –                          | 1,339           |
| <b>At 31 March 2008</b>                    | 2,468                   | 116,425                 | (57,867)                    | (958)                      | 60,068          |
| Exchange differences on foreign operations | –                       | –                       | –                           | 128                        | 128             |
| Profit for the period                      | –                       | –                       | 3,938                       | –                          | 3,938           |
| Total income and expenses for the period   | –                       | –                       | 3,938                       | 128                        | 4,066           |
| Issue of ordinary share capital            | 18                      | 279                     | –                           | –                          | 297             |
| Share-based payments                       | –                       | –                       | (499)                       | –                          | (499)           |
| <b>At 30 September 2008</b>                | 2,486                   | 116,704                 | (54,428)                    | (830)                      | 63,932          |
| Exchange differences on foreign operations | –                       | –                       | –                           | 565                        | 565             |
| Loss for the period                        | –                       | –                       | (4,414)                     | –                          | (4,414)         |
| Total income and expenses for the period   | –                       | –                       | (4,414)                     | 565                        | (3,849)         |
| Issue of ordinary share capital            | –                       | –                       | –                           | –                          | –               |
| Share-based payments                       | –                       | –                       | (1,180)                     | –                          | (1,180)         |
| <b>At 31 March 2009</b>                    | <b>2,486</b>            | <b>116,704</b>          | <b>(60,022)</b>             | <b>(265)</b>               | <b>58,903</b>   |

# Consolidated Cash Flow Statement

## For the period ended 31 March 2009

|   | Note | Six months<br>ended<br>31 March<br>2009<br>(Unaudited)<br>\$'000 | Six months<br>ended<br>31 March<br>2008<br>(Unaudited)<br>\$'000 | Year<br>ended<br>30 September<br>2008<br>(Audited)<br>\$'000 |
|---|------|--|--|--|
| <b>Operating activities</b>   |      |  |  |  |
| (Loss)/profit for the period  |      | <b>(4,414)</b>   | 678  | 4,616  |
| <b>Adjustments to reconcile (loss)/profit for the period to net cash inflow from operating activities</b> |      |  |  |  |
| Income tax (credit)/charge  |      | <b>(446)</b>   | 1,170  | 1,278  |
| Net finance costs   |      | <b>3,093</b>   | 2,784  | 5,802  |
| Depreciation of property, plant and equipment   |      | <b>14,999</b>  | 14,284   | 29,318   |
| Amortisation and impairment of intangible assets  |      | <b>3,563</b>   | 399  | 896  |
| Loss on disposal of property, plant, equipment and intangibles  |      | <b>1,254</b>   | 444  | 1,264  |
| Share-based payments  |      | <b>(1,180)</b>   | 1,339  | 840  |
| Decrease/(increase) in trade and other receivables  |      | <b>4,096</b>   | (3,716)  | (4,149)  |
| Government grants amortisation  |      | <b>(68)</b>  | (45)   | (94)   |
| Decrease/(increase) in inventories  |      | <b>166</b>   | 704  | (907)  |
| (Decrease)/increase in trade and other payables   |      | <b>(5,306)</b>   | 1,670  | 1,337  |
| Decrease in provisions  |      | <b>(422)</b>   | (353)  | (642)  |
| <b>Cash flows from operating activities</b>   |      | <b>15,335</b>  | 19,358   | 39,559   |
| Tax on continuing operations  |      | <b>(447)</b>   | (89)   | (88)   |
| <b>Net cash flows from operating activities</b>   |      | <b>14,888</b>  | 19,269   | 39,471   |
| <b>Cash flows used in investing activities</b>  |      |  |  |  |
| Interest received   |      | <b>103</b>   | 381  | 571  |
| Purchases of property, plant and equipment (PPE)  |      | <b>(11,682)</b>  | (13,767)   | (32,678)   |
| Expenditure on intangible assets  |      | <b>(548)</b>   | (1,938)  | (3,506)  |
| <b>Net cash flows used in investing activities</b>  |      | <b>(12,127)</b>  | (15,324)   | (35,613)   |
| <b>Cash flows from financing activities</b>   |      |  |  |  |
| Proceeds from finance leases  |      | <b>16,685</b>  | 23,225   | 51,286   |
| Payment of finance leases   | 12   | <b>(21,836)</b>  | (20,621)   | (43,422)   |
| Proceeds from share issues  |      | –  | 758  | 1,055  |
| Interest paid   |      | <b>(3,196)</b>   | (3,164)  | (6,373)  |
| <b>Net cash flows from financing activities</b>   |      | <b>(8,347)</b>   | 198  | 2,546  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   |      | <b>(5,586)</b>   | 4,143  | 6,404  |
| Effect of exchange on cash and cash equivalents   |      | <b>(339)</b>   | (45)   | 2  |
| Cash and cash equivalents at beginning of period  |      | <b>27,466</b>  | 21,060   | 21,060   |
| <b>Cash and cash equivalents at end of period</b>   |      | <b>21,541</b>  | 25,158   | 27,466   |

# Notes to the Interim Financial Statements

## **1 Authorisation of financial statements**

The interim condensed consolidated financial statements of the Group for the six months ended 31 March 2009 were approved and authorised for issue by the Directors on 20 May 2009. Optos plc is a public limited company incorporated and domiciled in Scotland. The Company's ordinary shares are traded on the London Stock Exchange.

## **2 Basis of preparation and accounting policies**

### **a. Basis of preparation**

The interim condensed consolidated financial statements are unaudited but have been formally reviewed by the auditors and their report to the Company is included on page 19. The information shown for the year ended 30 September 2008 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985 and has been extracted from the Group's 2008 Annual Accounts which have been filed with the Registrar of Companies. The Independent Review Report of the auditors on the financial statements contained within the Group's 2008 Annual Report and Accounts was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

The format of the consolidated income statement presented in these interim condensed financial statements differs from that used in the Group's consolidated financial statements for the year ended 30 September 2008 and the Group's 2008 Interim Report. The format of the consolidated income statement included within these interim condensed consolidated financial statements, which presents exceptional items in separate columns, has been adopted as it presents information in a format that is more relevant to users of the financial statements.

In preparing these interim condensed financial statements the Group has complied with IAS 34 "Interim Financial Reporting".

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those set out in the Group's statutory financial statements for the year ended 30 September 2008 which were prepared under International Financial Reporting Standards as adopted by the European Union, except for the adoption of the following policies:

### **b. Exceptional items**

Material items of income and expense which, because of the nature and infrequency of the events giving rise to them, merit separate presentation to allow a better understanding of the elements of the Group's financial performance for the period, are presented as exceptional items on the face of the income statement to facilitate comparisons with prior periods and assessment of trends in financial performance.

### **c. Share-based payment transactions**

Where share options lapse as a result of the Company terminating the employment of an individual, this is accounted for as a forfeiture of the option.

### **d. New standards and interpretations**

New standards and interpretations adopted in these accounts are listed below, and did not have any effect on the financial position or performance of the Group:

|          |  |
|----------|--|
| IFRS7    | Financial Instruments: Disclosures                         |
| IAS1     | Presentations of Financial Statements: Capital Disclosures |
| IFRIC 10 | Interim Financial Reporting and Impairment                 |
| IFRIC 11 | IFRS 2 Group and Treasury Share Transactions               |

## Notes to the Interim Financial Statements continued

### 2 Basis of preparation and accounting policies continued

#### e. Going concern

The Group's business activities and principal risks and uncertainties are detailed in the Annual Report and Accounts 2008. Having considered these uncertainties under the current economic environment, together with the circumstances outlined in the Interim Business and Financial Review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. As part of this review the Directors considered the current levels of support from vendor finance partners as well as other discussions currently ongoing which may lead to access to other sources of capital. The Directors also considered the levels of future business guaranteed under its pay-per-patient customer agreements and the pattern of future debt repayments associated with current vendor finance obligations, together with working capital forecasts and other factors which may affect future cash flows. Accordingly they continue to adopt the going concern basis in preparing the Interim Report and condensed set of financial statements.

### 3 Segmental analysis

The primary segment reporting format is determined to be geographic segments as the Group's risks and rates of return are affected predominantly by differences in the geographic locations of the markets served. The Group's principal area of activity is in the provision of technology to healthcare professionals which enable them to take a digital wide-field scan of the retina, the light sensitive area at the back of the eye. Optos's platform technology is a scanning laser ophthalmoscope device which is installed at healthcare professionals' sites. These sites are fully supported by the Group's employees. Revenue is generated on a pay-per-examination basis, usually with a minimum monthly usage level being agreed. For the six months ended 31 March 2009 "pay-per-patient" agreements accounted for approximately 97% of sales compared to 91% for the same period in the previous year (12 months to 30 September 2008: 91%). Additional revenue is generated from the sale of retinal examination equipment and associated income from the sales of service and warranty, in which case revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Based upon this split of revenues the Directors have determined that a geographical analysis of operations is most appropriate and accordingly the Group has only one class of business.

The operating businesses are organised and managed separately according to the geographic location of the operations, with each segment representing a strategic business unit that offers the same products to different markets. Sales to external customers disclosed in geographical segments are based on the geographical location of the Group's customers.

Transfer prices between segments are set at cost. Segment revenue, segment expense and segment result include transfers between geographical segments. Those transfers are eliminated on consolidation.

### 3 Segmental analysis continued

An analysis by geographical market is given below for the six months ended 31 March 2009:

|   | North America<br>2009<br>\$'000 | Europe<br>2009<br>\$'000 | Eliminations<br>2009<br>\$'000 | Total<br>2009<br>\$'000 |
|---|---------------------------------|--------------------------|--------------------------------|-------------------------|
| <b>Revenue</b>                                  |                                 |                          |                                |                         |
| Sales to external customers                     | 43,882                          | 3,939                    | –                              | 47,821                  |
| Inter-segment sales                             | –                               | 8,779                    | (8,779)                        | –                       |
| Segment revenue                                 | 43,882                          | 12,718                   | (8,779)                        | 47,821                  |
| <b>Result</b>                                   |                                 |                          |                                |                         |
| Segment result before share-based payments      | 10,112                          | (8,598)                  |                                | 1,514                   |
| Share-based payments                            | 911                             | 691                      |                                | 1,602                   |
| Inter-segment costs                             | (4,064)                         | 4,064                    |                                | –                       |
| Exceptional costs                               | (886)                           | (3,997)                  |                                | (4,883)                 |
| Operating profit after share-based payments     | 6,073                           | (7,840)                  |                                | (1,767)                 |
| Net interest                                    |                                 |                          |                                | (3,093)                 |
| Loss from continuing operations before taxation |                                 |                          |                                | (4,860)                 |
| Taxation  |                                 |                          |                                | 446                     |
| <b>Net loss for the period</b>                  |                                 |                          |                                | <b>(4,414)</b>          |

An analysis by geographical market is given below for the six months ended 31 March 2008:

|   | North America<br>2008<br>\$'000 | Europe<br>2008<br>\$'000 | Eliminations<br>2008<br>\$'000 | Total<br>2008<br>\$'000 |
|---|---------------------------------|--------------------------|--------------------------------|-------------------------|
| <b>Revenue</b>                                    |                                 |                          |                                |                         |
| Sales to external customers                       | 45,807                          | 3,112                    | –                              | 48,919                  |
| Inter-segment sales                               | –                               | 9,699                    | (9,699)                        | –                       |
| Segment revenue                                   | 45,807                          | 12,811                   | (9,699)                        | 48,919                  |
| <b>Result</b>                                     |                                 |                          |                                |                         |
| Segment result before share-based payments        | 13,758                          | (8,119)                  |                                | 5,639                   |
| Share-based payments                              | (1,106)                         | 99                       |                                | (1,007)                 |
| Inter-segment costs                               | (7,660)                         | 7,660                    |                                | –                       |
| Exceptional costs                                 | –                               | –                        |                                | –                       |
| Operating profit after share-based payments       | 4,992                           | (360)                    |                                | 4,632                   |
| Net interest                                      |                                 |                          |                                | (2,784)                 |
| Profit from continuing operations before taxation |                                 |                          |                                | 1,848                   |
| Taxation  |                                 |                          |                                | (1,170)                 |
| <b>Net profit for the period</b>                  |                                 |                          |                                | <b>678</b>              |

## Notes to the Interim Financial Statements continued

### 3 Segmental analysis continued

An analysis by geographical market is given below for the year ended 30 September 2008:

|   | North America<br>2008<br>\$'000 | Europe<br>2008<br>\$'000 | Eliminations<br>2008<br>\$'000 | Total<br>2008<br>\$'000 |
|---|---------------------------------|--------------------------|--------------------------------|-------------------------|
| <b>Revenue</b>                                    |                                 |                          |                                |                         |
| Sales to external customers                       | 93,265                          | 7,547                    | –                              | 100,812                 |
| Inter-segment sales                               | –                               | 24,466                   | (24,466)                       | –                       |
| Segment revenue                                   | 93,265                          | 32,013                   | (24,466)                       | 100,812                 |
| <b>Result</b>                                     |                                 |                          |                                |                         |
| Segment result before share-based payments        | 27,539                          | (15,550)                 |                                | 11,989                  |
| Share-based payments                              | (506)                           | 213                      |                                | (293)                   |
| Inter-segment costs                               | (16,415)                        | 16,415                   |                                | –                       |
| Exceptional costs                                 | –                               | –                        |                                | –                       |
| Operating profit after share-based payments       | 10,618                          | 1,078                    |                                | 11,696                  |
| Net interest                                      |                                 |                          |                                | (5,802)                 |
| Profit from continuing operations before taxation |                                 |                          |                                | 5,894                   |
| Taxation  |                                 |                          |                                | (1,278)                 |
| <b>Net profit for the period</b>                  |                                 |                          |                                | <b>4,616</b>            |

### 4 Exceptional items

Following the appointment of Roy Davis as Chief Executive Officer a business review was undertaken. This review resulted in a decision to focus on the Group's core optometry business. Overhead reductions in the range 10%-20% were made which resulted in redundancy payments of \$1,079,000 being made. In addition a review of R&D was undertaken which resulted in the write down of \$2,804,000 of development costs related to projects which will no longer form part of the strategic focus. Inventory items that were identified as having a net realisable value below cost were written down by a total of \$1,000,000.

### 5 Revenue

|                       | <b>Six months<br/>ended<br/>31 March<br/>2009<br/>(Unaudited)<br/>\$'000</b> | Six months<br>ended<br>31 March<br>2008<br>(Unaudited)<br>\$'000 | Year<br>ended<br>30 September<br>2008<br>(Audited)<br>\$'000 |
|-----------------------|--|--|--|
| Revenue               |  |  |  |
| Sales of goods        | <b>815</b>   | 3,983  | 8,472  |
| Rendering of services | <b>47,006</b>  | 44,936   | 92,340   |
| Revenue               | <b>47,821</b>  | 48,919   | 100,812  |
| Finance revenue       | <b>103</b>   | 381  | 571  |
| Total revenue         | <b>47,924</b>  | 49,300   | 101,383  |

No revenue was derived from exchanges of goods or services. Rendering of services includes pay-per-patient revenue together with income of \$600,000 (March 2008: \$300,000; September 2008: \$700,000) from the sales of service and warranty agreements.

## 6 Share-based payments

The Company has operated discretionary share option arrangements both pre and post its admission to the main market of the London Stock Exchange in February 2006, details of which can be found on pages 58 and 59 of the Group's Annual Report and Accounts for the year ended 30 September 2008, a copy of which is available on the Group's website ([www.optos.com](http://www.optos.com)).

On 13 January 2009, 192,500 awards at £0.76 per share were made under the Share Option Plan 2007. On 10 March 2009 915,000 options at £0.02 per share were awarded under the Performance Share Plan 2007.

The total credit for share-based payments for the six months ended 31 March 2009 was \$1,602,000 (March 2008: a charge of \$1,007,000; September 2008: a charge of \$293,000).

The credit comprised \$1,180,000 (March 2008: a charge of \$1,339,000; September 2008: a charge of \$840,000) in respect of the fair value of equity-settled share options as estimated using the Black-Scholes formula. This credit reflected options forfeit due to staff departures following a re-organisation of the Company and reduced expectations in the anticipated costs of options with performance vesting criteria.

In addition the credit comprised \$422,000 (March 2008: a credit of \$332,000; September 2008: a credit of \$547,000) in respect of provisions for employer related employment taxes payable on exercise of the options issued prior to the Company's admission to the London Stock Exchange. This credit reflected options forfeit as described above and the reduction in the share price of the Company during the period.

## 7 Taxation

As at 31 March 2009, the Group is estimated to have approximately \$80,000,000 of gross unused tax losses. In the six months ended 31 March 2009 \$447,000 of tax (March 2008: \$89,000; September 2008: \$88,000) was paid in the US in respect of certain minimum taxes levied by certain individual state tax bodies, \$318,000 relating to the year ended 30 September 2008 and \$129,000 relating to the year ended 30 September 2009.

Of the total Group unused tax losses, a deferred tax asset was recognised in 2006 in respect of historic US tax losses and in 2008 in respect of historic Canadian tax losses as there is sufficient evidence to conclude that these losses will be recoverable in the future. The remaining deferred tax asset balances for gross unused tax losses of approximately \$56,000,000 (March 2008: \$42,500,000; September 2008: \$52,000,000) arising primarily in the UK, have not been recognised on the grounds that there is insufficient evidence that these assets will be recoverable. These assets will be recovered when future tax charges are sufficient to absorb these tax benefits. The continued availability of the tax losses is subject to certain conditions being met and the level of losses not being challenged by the relevant tax authority.

## Notes to the Interim Financial Statements continued

### 8 (Loss)/profit per ordinary share

Basic earnings per share amounts are calculated by dividing the (loss)/profit before taxation and the (loss)/profit after taxation for the financial period by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the (loss)/profit before taxation and the (loss)/profit after taxation for the financial period by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of dilutive options). In the case of a loss, no impact for further dilution is reflected as this would not have the effect of increasing the loss per share and is therefore not dilutive.

The (loss)/profit per ordinary share is calculated as follows:

|  | <b>Six months<br/>ended<br/>31 March<br/>2009<br/>(Unaudited)<br/>No.</b> | Six months<br>ended<br>31 March<br>2008<br>(Unaudited)<br>No. | Year<br>ended<br>30 September<br>2008<br>(Audited)<br>No. |
|--|---|---|---|
| Weighted average number of ordinary shares in issue                                | <b>69,183,072</b>   | 68,868,484  | 69,183,072  |
| Effect of dilution: share options  | <b>–</b>  | 955,642   | 876,101   |
| Adjusted weighted average number of ordinary shares for diluted earnings per share | <b>69,183,072</b>   | 69,824,126  | 70,059,173  |
| (Loss)/profit before taxation (\$'000)   | <b>(4,860)</b>  | 1,848   | 5,894   |
| Basic (loss)/profit before taxation per share (cents)                              | <b>(7.0)c</b>   | 2.7c  | 8.5c  |
| Diluted (loss)/profit before taxation per share (cents)                            | <b>(7.0)c</b>   | 2.6c  | 8.4c  |
| (Loss)/profit after taxation (\$'000)  | <b>(4,414)</b>  | 678   | 4,616   |
| Basic (loss)/profit after taxation per share (cents)                               | <b>(6.4)c</b>   | 1.0c  | 6.7c  |
| Diluted (loss)/profit after taxation per share (cents)                             | <b>(6.4)c</b>   | 1.0c  | 6.6c  |

### 9 Property, plant and equipment

During the six months to 31 March 2009, the Group acquired assets with a cost of \$8,792,000 (March 2008: \$13,402,000; September 2008: \$32,682,000) and disposed of assets with a net book value of \$1,254,000 (March 2008: \$914,000; September 2008: \$1,264,000).

There is no impairment to property, plant and equipment.

## 10 Intangible assets

During the six months to 31 March 2009, the Group capitalised intangible assets of \$783,000 (March 2008: \$1,938,000; September 2008: \$2,671,000) and amortised intangible assets of \$759,000 (March 2008: \$399,000; September 2008: \$896,000).

As at 31 March 2009, the net book value of Group intangible assets was \$10,391,000 (March 2008: \$12,155,000; September 2008: \$13,226,000). Of this total at 31 March 2009, \$9,232,000 (March 2008: \$11,317,000; September 2008: \$12,193,000) related to development costs, with the balance relating to software and intellectual property costs.

Development costs are capitalised as intangible assets under IAS 38 to the extent the Board considers that individual projects meet the recognition criteria under the relevant standard. As at 31 March 2009, \$7,755,000 (March 2008: \$9,481,000; September 2008: \$10,000,000) of these costs related to the design of a common technology platform. Costs related to the development of a common technology platform commenced amortisation in 2007 and will be amortised over the benefits anticipated to accrue in the first five years of operations (included within administrative expenses).

During the period the carrying value of development costs was reviewed for impairment and \$2,804,000 was written off and included within exceptional items (note 4).

## 11 Cash and cash equivalents

|                          | <b>Six months<br/>ended<br/>31 March<br/>2009<br/>(Unaudited)<br/>\$'000</b> | Six months<br>ended<br>31 March<br>2008<br>(Unaudited)<br>\$'000 | Year<br>ended<br>30 September<br>2008<br>(Audited)<br>\$'000 |
|--------------------------|--|--|--|
| Cash at bank and in hand | <b>11,541</b>  | 14,134   | 8,568  |
| Short-term deposits      | <b>10,000</b>  | 11,024   | 18,898   |
|                          | <b>21,541</b>  | 25,158   | 27,466   |

Cash at bank earns interest at floating rates based on daily deposit rates.

## Notes to the Interim Financial Statements continued

### 12 Finance lease commitments

Upon placement of medical devices at a customer site, the healthcare professional typically enters into a three-year lease agreement with a third-party provider of vendor finance. Optos enters into a matching finance agreement with the third-party provider of vendor finance involving the transfer of medical devices to the finance provider with legal title being transferred back to Optos at the end of the period. As the significant risks and rewards of ownership are retained by Optos, the proceeds received from the third-party providers of vendor finance are recorded as finance lease obligations, which are repayable by instalments and are secured over the related medical devices.

During the six months to 31 March 2009, the Group raised additional funding through vendor finance of \$16,685,000 (March 2008: \$23,225,000; September 2008: \$51,286,000) and made repayments to third-party providers of vendor finance of \$21,836,000 (March 2008: \$20,621,000; September 2008: \$43,422,000). Total finance lease commitments outstanding at 31 March 2009 were \$80,741,000 (March 2008: \$80,305,000; September 2008: \$85,892,000).

### 13 Related party transactions

There were no related party transactions during the six months to 31 March 2009 (March 2008: \$nil; September 2008: \$nil).

# Independent Review Report to Optos plc

## For the period ended 31 March 2009

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 31 March 2009 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes 1 to 13. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 March 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**Ernst & Young LLP**

Glasgow

20 May 2009

# Directors and Advisers

**Dr John M. Padfield**

Non-executive Chairman

**Roy Davis**

Chief Executive Officer

**Allan M. Watson**

Chief Financial Officer

**Anne M. Glover**

Non-executive Director

**Patrick R.D. Paul**

Non-executive Director

**Barry M. Rose**

Non-executive Director

**Rosalyn S. Wilton**

Non-executive Director

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**Company number**

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**Company Secretary**

John McNeil

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