


Optos plc

Interim report for the six months ended 31 March 2010



Optos plc is an innovative retinal imaging company with a vision to be recognised as the leading provider of retinal diagnostics

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The **optomap**[®] is the only eye exam that provides an ultra-widefield 82% view of the retina and does so in just 0.25 seconds.

A simple **optomap** scan can lead to early detection of common diseases, such as glaucoma, diabetes and macular degeneration. The **optomap** image is displayed immediately, enabling eye doctors to promptly diagnose problems, and its digital format allows the eye specialist to send the image anywhere in the world for expert review if necessary. This is why more than 12,000 people per day choose to have an **optomap**.

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Financial and operating highlights

Financial

	Six months ended 31 March 2010 (unaudited) \$m	Six months ended 31 March 2009 (unaudited) \$m	Year ended 30 Sept 2009 (audited) \$m
Revenue from pay-per-patient contracts	45.4	46.4	93.5
Revenue	47.3	47.8	97.2
Gross profit	31.2	29.4	59.0
Operating profit (pre-exceptional items)	4.3	3.1	8.5
Exceptional items before tax	–	(4.9)	(6.3)
Operating profit (post-exceptional items)	4.3	(1.8)	2.2
Profit after tax (pre-exceptional items)	1.5	0.1	1.5
Profit/(loss) after tax (post-exceptional items)	1.5	(4.4)	(4.3)
Cash flow from operating activities	21.6	15.2	37.8
Net debt (cash less lease finance liabilities)	(32.7)	(59.2)	(46.2)
Fully diluted earnings/(loss) per share after tax (cents)	2.1c	(6.4)c	(6.1)c

Operating

Return to profitability with post-tax profit of \$1.5m (H1 2009: loss \$4.4m after \$4.9m exceptional items)

- Positive impact of asset utilisation focus
- Gross margins improved to 66% (H1 2009: 61.5%)
- Cost controls and operating efficiencies show benefits of restructuring
- Average monthly **optomaps** per site 109 (H1 2009: 102)
- Average monthly revenues per site \$2,099 (H1 2009: \$2,032)
- Contract renewal rates remain strong at 84% (H1 2009: 83%)
- 179 sites de-installed in the period (approx 5% of installed PPP base)
- 204 new installations, increasing PPP base to 3,650

Significant cash generation, reducing net debt by \$13.5m in the six month period to \$32.7m

Positive results from two clinical trials supporting **optomap** widefield retinal examinations as “gold standard”

- NECO study in 170 patients shows **optomap** assisted eye examinations had 30% greater capability to detect retinal lesions over traditional exams
- Follow-on Reykjavik/Moorfields study demonstrates importance of widefield imaging with 56% of 573 patients showing evidence of AMD-related changes in the retinal periphery

Continued pipeline progress and strategic implementation

- P200C and P200MA products now available, with the development of an auto-fluorescence module advancing
- Significant advances in our development programmes with launch of software and hardware upgrades imminent
- Launch of new business models to help drive adoption in H2 and beyond

Business review



Roy Davis Chief Executive Officer



Christine Soden Chief Financial Officer

Overview

Overall, we delivered a return to profit in the first half and much improved cash generation which led to a material reduction in our net debt.

Over the past 12 to 15 months our focus has been on better management of our customer portfolio – helping customers to improve the utilisation of their devices but accepting that certain practices could not justify retaining or renewing their contracts. Our customer base steadied in this six month period, increasing slightly to 3,831 with 25 net new pay-per-patient (PPP) customers and the outright sale of nine devices, following a decline of 200 customers (or around 5%) last year. The decrease in PPP revenues reflects the lower installed base but we saw an encouraging 7% growth in the average number of **optomaps** per site and a 3% growth in average revenues per site. The revenues again demonstrated the slight seasonality in the business where the first half revenues are typically lower than the second.

Our revenues for the first six months of the year were \$47.3m, slightly lower than those achieved in the equivalent period last year (H1 2009: \$47.8m). \$45.4m was generated from PPP revenues (H1 2009: \$46.4m) and the balance of \$1.9m was earned from capital sales and service contracts (H1 2009: \$1.4m).

Despite the slightly lower revenues, we significantly improved our gross margins to 66% (from 61.5% in H1 2009) as we reaped the benefits of last year's restructuring activities, reduced depreciation charges and active supply-chain management. Gross profits increased 6% to \$31.2m for the period (H1 2009: \$29.4m). Selling, distribution and administrative expenses were \$26.7m (H1 2009: \$27.9m before exceptional items), reflecting significant savings

from the restructuring of the business partly offset by the increase over the last twelve months in our sales force, with account manager numbers rising by 17 to 63. We see this sales force expansion as an investment for the future. We have an excellent customer base and we believe that with proper assistance from our account managers we can assist them in building increasingly effective and profitable practices.

No further exceptional items arose in this period (H1 2009: \$4.9m of restructuring charges were incurred) and we increased profitability with operating profits of \$4.3m (H1 2009: \$3.1m pre-exceptional items). A small tax charge of \$0.3m arose, relating largely to minimum taxes levied by certain states. The post-tax profit was \$1.5m compared to \$0.1m in H1 2009 before exceptional items and a loss of \$4.4m after exceptional items. Earnings per share were 2.1c (H1 2009: loss of 6.4c).

Our net debt as at 31 March 2010 reduced from \$46.2m at the start of the period to \$32.7m at period end. Cash balances were \$40.4m and financial liabilities were \$73.1m. This resulted from the improved operating performance, good working capital management and reduced levels of capital investment.

Revenues and markets

The PPP installed base increased by 25 in the period, with 204 new installations and 179 de-installations. The de-installations represented some 5% of our installed base over the period and averaged less than 1% on a monthly basis. Our renewal rate for the six month period was 84% and on a rolling annual basis was 85% (conversely, of those contracts eligible for renewal, 15% chose to de-install). Average **optomap** examinations taken by customers continued to improve and in the

“We have seen a return to profitability in the first half, with strong cash generation leading to much reduced net debt. Our focus on asset utilisation is yielding encouraging results with a further increase in the average number of **optomaps** per site.”

six-month period were 109 per month compared to 102 in H1 2009 and 108 in H2 2009. On a like-for-like basis, those sites in situ for the entire six-month period achieved an average of 116 **optomaps** per month whilst those de-installing averaged 52 and those installed in the period averaged 95. Average revenues per customer per month were \$2,099 (H1 2009: \$2,032; H2 2009: \$2,099).

Our performance outside of North America continued to show good growth with revenues of \$5.4m (H1 2009: \$3.9m) whilst North America, where we have seen the greater number of customers de-installing, performed less well with revenues of \$41.9m (H1 2009: \$43.9m).

Cash flow, cash balances and financing

The business has been highly cash-generative in the period. Net cash flows from operating activities were \$21.4m (H1 2009: \$14.8m) principally arising from the operating profit of \$4.3m adjusted for non-cash expenses (depreciation, losses on disposals, amortisation and share-based payments) of \$15.8m and from reductions in working capital and other liabilities of \$1.5m. Capital expenditure in the period was \$6.4m (H1 2009: \$12.1m), largely investing in refurbishing existing P200 devices and building new P200C and P200MA devices. Free cash flow, being operating cash flow after investing activities and before interest, increased strongly from \$2.6m in H1 2009 to \$15.0m in H1 2010.

Key performance indicators (“KPIs”)

	H1 2010	H1 2009
Commercial – PPP agreements		
Net installs/(de-installs) in period	25	(37)
Number of PPP sites at period end	3,650	3,788
Total installed devices at period end	3,831	3,951
Average price per optomap	\$19.2	\$19.9
Average number of monthly optomaps per site	109	102
Number of eye exams sold	2.4m	2.3m
Average monthly revenue per site	\$2,099	\$2,032
Operational		
Contract renewal rate for six months	84%	83%
Financial		
Operating profit before exceptional items	\$4.3m	\$3.1m
Profit/(loss) before taxation per ordinary share	2.5c	(7.0)c
Free cash flow	\$15.0m	\$2.6m

Business review

continued



Cash flow, cash balances and financing continued

The Group entered into a number of new finance leases in the period, drawing down \$15.9m of new lease finance and repaying \$21.4m on lease agreements of which \$18.8m was principal and \$2.6m interest. In addition \$0.7m of cash was generated upon the exercise of share options by former employees.

Cash generated in the period was \$10.3m and cash balances increased from \$30.1m at 1 October 2009 to \$40.4m at the end of March 2010. The net amounts outstanding on lease agreements decreased by \$3.2m to \$73.1m bringing the net debt position as at March 2010 to \$32.7m, a reduction of \$13.5m from the \$46.2m position as at 1 October 2009 and brings the net reduction over the last twelve months to \$26.5m.

Assets, liabilities and shareholders' funds

The net book value of property plant and equipment reduced in the period by \$8.6m to \$70.8m with additions of \$6.2m offset by depreciation and disposals of \$14.8m. The majority of this \$70.8m relates to the carrying value of medical devices and these are generally depreciated over a five-year period from the point of installation.

Expenditure on intangible assets in the period was low at \$0.2m and amortisation charges of \$1.2m reduced the net book value to \$8.0m.

Inventories reduced significantly in the six month period from \$8.4m to \$5.9m as the refurbishment and manufacture of P200, P200C and P200MA used a significant part of the stocks held.

The issued share capital increased to 69,991,975 ordinary shares upon the issue of 452,000 new shares to meet the exercise of share options.

Clinical studies

We are very pleased with the progress seen in our major clinical studies. We intend to increase our investment in clinical studies, putting in place multi-centre studies seeking to provide practitioners and patients with compelling evidence of the effectiveness of our products in diagnosing and treating a number of major diseases and pathologies. Our aim is to make wide-field digital retinal screening part of standard of care in eye exams and in the monitoring and treatment of important diseases and pathologies including diabetes and age-related macular degeneration (AMD).

The ongoing study at the New England College of Optometry (NECO), evaluating the sensitivity and selectivity of the **optomap** exam against traditional optometric examinations in 170 patients, has validated the results shown in the pilot study, with **optomap** guided exams being equally selective as the standard eye exams (no details are lost) whilst being 30% more sensitive (30% more retinal lesions were identified using the **optomap** exam without dilation than can be seen in the standard, dilated ophthalmoscope exams). This study is ongoing and will be extended to include examinations with the P200 device in addition to the P200C used in the first 170 patients.

We also recently reported good results from the Reykjavik/Moorfields study, demonstrating the importance of examining the periphery of the retina and the effectiveness of the Optos scanning laser ophthalmoscope technology in detecting AMD.

“We have continued to make good progress in our R&D programmes and recent positive results from our clinical studies make us increasingly confident for the future of our business.”

This study represents the twelve-year follow up in 573 patients of the Reykjavik Eye Study which started in 1996. The scientific rationale for inclusion of Optos' technology in the follow-up study is that peripheral changes associated with disease might be an important indicator even before central vision damage sets in, particularly in understanding the development and progression of AMD.

The study found that 56% of patients had pathology on the periphery with features that are normally associated with AMD. Seven patients had changes at the periphery without end-stage disease in the macula. No patient with end-stage disease in the macula had normal periphery. The study confirmed that there are wide ranging pathological changes in the periphery even in those who have no central pathologies. The predictive values for these peripheral pathologies will be investigated further.

Our study with the world-leading Joslin diabetes research centre is ongoing. The study seeks to determine the importance of widefield retinal digital examinations in the management of diabetes. We expect results to be reported in the next few months.

Research & Development

Our customers have benefitted from a steady stream of hardware and software upgrades to our P200 devices. These constant improvements to our product have allowed us to retain customers over many years. We are pleased to be close to launching some significant further upgrades to key customers. Our V2 Vantage Pro software will be rolled out in the coming months, offering customers significant improvements in image quality, workflow management, review tools and introducing remote software updating capability.

We are finalising new hardware modifications offering enhanced customer comfort, improving the ease and reliability of taking images and, when linked to the Vantage Pro software, offering major improvements in the superior field brightness and blood vessel definition.

Our more advanced devices, the P200C and P200MA have been re-launched and our development programme targeted at adding auto-fluorescence capability to these devices is well-advanced. This AF capability is increasingly important in the diagnosis and treatment of diseases such as age-related macular degeneration.

Our major Daytona project is focused on the development of a smaller product capable of being produced at much lower cost and, being significantly lighter and easier to install and maintain, is progressing well. This will be the key to expanding widefield digital retinal imaging into smaller practices in the developed world and moving into new markets.

We continue to work on developing an image storage and management system to complement the move amongst the medical community towards integrated electronic medical record systems.

New business models

Whilst the worst of the financial crisis appears to be over, practitioners remain wary of investing heavily in new devices and patients are still watching their spending. Despite this, we believe that the value of thorough wellness screening and diagnostics and digital imaging of medical care is increasingly recognised by patients and practitioners. Moreover, the availability of finance has increased in the last year, allowing practitioners the ability to fund the expansion of their businesses. Optos' PPP business

“We expect to see further strong cash generation in the traditionally stronger second half of the year, with a clear target to increase revenues over the first half.”

New business models continued

model of allowing access to our technology without the need for major capital investment remains attractive to many customers. Our recent market research has shown us that we are limiting our customer base through a fixed term PPP model. In particular, customers in the ophthalmology and hospital sectors are accustomed to a capital purchase or fixed price rental contract. Accordingly, we have now introduced greater flexibility in our business models, allowing customers more choice in the way they access technology (through a PPP, fixed rental or capital sale model) and over the range of services they buy with options over the levels of service, the modules acquired and the rights to software and hardware upgrades.

Board changes

We would like to extend thanks on behalf of the Company to Dr John Padfield who served as Chairman of Optos from January 2006 until the end of 2009, taking the business through its first years as a public company. We are pleased to welcome Dr Peter Fellner who joined our Board as Chairman with effect from 1 January 2010. Peter brings extensive experience of healthcare businesses in executive management, non-executive directorship and chairmanship positions that should prove extremely valuable in taking Optos through its next stages of growth.

Principal risks and uncertainties

The principal risks and uncertainties which affect the Group have not materially changed since the year ended 30 September 2009 and a detailed explanation of those risks and uncertainties can be found on pages 24 and 25 of the 2009 Annual Report and Accounts. These properly reflect the principal risks and uncertainties in respect of the six months ended 31 March 2010.

Summary and outlook

Overall, we delivered a return to profit in the first half and much improved cash generation which led to a material reduction in our net debt. As we move into the second half of the year, our focus is on the following:

- continued attention to asset utilisation and building the base of high-quality customers;
- offering more flexibility in our business models seeking to attract new customers;
- rolling out the hardware and software upgrades to key customers of our P200 devices;
- expanding our sales channel, particularly into ophthalmology for the launch of P200C and P200MA with auto-fluorescence capability;
- expanding our business outside North America; and
- optimising the value of our sales force and customers by acquiring access to additional products.

We expect to see further strong cash generation in the traditionally stronger second half of the year, with a clear target to increase revenues over the first half. With a tight control over costs and progress with our clinical studies and development programmes we are increasingly confident for the future of our business.

Roy Davis

Chief Executive Officer
20 May 2010

Christine Soden

Chief Financial Officer

Condensed consolidated income statement

For the six months ended 31 March 2010

	Notes	Six months ended 31 March 2010 (Unaudited) \$m	Six months ended 31 March 2009			Year ended 30 September 2009		
			Before exceptional items (Unaudited) \$m	Exceptional items (Note 4) (Unaudited) \$m	Total 2009 (Unaudited) \$m	Before exceptional items (Audited) \$m	Exceptional items (Note 4) (Audited) \$m	Total 2009 (Audited) \$m
Revenue	5	47.3	47.8	–	47.8	97.2	–	97.2
Cost of sales		(16.1)	(18.4)	–	(18.4)	(38.2)	–	(38.2)
Gross profit		31.2	29.4	–	29.4	59.0	–	59.0
Selling and distribution costs		(10.6)	(11.3)	(0.1)	(11.4)	(22.5)	(0.1)	(22.6)
Administrative expenses		(16.1)	(16.6)	(4.8)	(21.4)	(29.6)	(6.2)	(35.8)
Share-based payments	6	(0.2)	1.6	–	1.6	1.6	–	1.6
Operating profit/(loss)		4.3	3.1	(4.9)	(1.8)	8.5	(6.3)	2.2
Finance revenue		0.1	0.1	–	0.1	0.1	–	0.1
Finance costs		(2.6)	(3.2)	–	(3.2)	(6.1)	–	(6.1)
Profit/(loss) before taxation		1.8	–	(4.9)	(4.9)	2.5	(6.3)	(3.8)
Income tax (charge)/credit	7	(0.3)	0.1	0.4	0.5	(1.0)	0.5	(0.5)
Profit/(loss) for the period		1.5	0.1	(4.5)	(4.4)	1.5	(5.8)	(4.3)
Profit/(loss) before taxation per ordinary share								
Basic	8	2.5c	0.0c		(7.0)c	3.6c		(5.5)c
Diluted	8	2.5c	0.0c		(7.0)c	3.6c		(5.5)c
Profit/(loss) after taxation per ordinary share								
Basic	8	2.1c	0.2c		(6.4)c	2.1c		(6.1)c
Diluted	8	2.1c	0.2c		(6.4)c	2.1c		(6.1)c

All activity arose from continuing operations.

Condensed consolidated statement of comprehensive income

For the six months ended 31 March 2010

	Six months ended 31 March 2010 (Unaudited) \$m	Six months ended 31 March 2009 (Unaudited) \$m	Year ended 30 Sept 2009 (Audited) \$m
Profit/(loss) for the period	1.5	(4.4)	(4.3)
Other comprehensive income:			
Exchange differences on foreign operations	0.2	0.6	0.3
Other comprehensive income for the period	0.2	0.6	0.3
Total comprehensive income/(expense) for the period	1.7	(3.8)	(4.0)

Condensed consolidated balance sheet

As at 31 March 2010

	Notes	As at 31 March 2010 (Unaudited) \$m	As at 31 March 2009 (Unaudited) \$m	As at 30 Sept 2009 (Audited) \$m
Assets				
Non-current assets				
Property, plant and equipment	9	70.8	89.3	79.4
Intangible assets	10	8.0	10.4	9.0
Deferred tax asset	7	9.6	9.9	9.7
Total non-current assets		88.4	109.6	98.1
Current assets				
Inventories		5.9	8.5	8.4
Trade and other receivables		10.5	11.4	9.5
Cash and cash equivalents	11	40.4	21.5	30.1
Total current assets		56.8	41.4	48.0
Total assets		145.2	151.0	146.1
Equity and liabilities				
Equity				
Issued capital		2.5	2.5	2.5
Share premium		117.4	116.7	116.7
Retained earnings		(58.3)	(60.0)	(60.0)
Other reserves		(0.4)	(0.3)	(0.6)
Total equity		61.2	58.9	58.6
Non-current liabilities				
Financial liabilities	12	41.1	49.3	44.3
Provisions		0.1	–	0.1
Government grants		0.5	0.7	0.6
Total non-current liabilities		41.7	50.0	45.0
Current liabilities				
Trade and other payables		9.4	10.5	9.6
Financial liabilities	12	32.0	31.4	32.0
Government grants		0.2	0.2	0.2
Income tax payable	7	0.7	–	0.7
Total current liabilities		42.3	42.1	42.5
Total liabilities		84.0	92.1	87.5
Total equity and liabilities		145.2	151.0	146.1

Condensed consolidated statement of cash flows

For the six months ended 31 March 2010

	Notes	Six months ended 31 March 2010 (Unaudited) \$m	Six months ended 31 March 2009 (Unaudited) \$m	Year ended 30 Sept 2009 (Audited) \$m
Operating activities				
Profit/(loss) for the period		1.5	(4.4)	(4.3)
Adjustments to reconcile profit/(loss) for the period to net cash inflow from operating activities:				
Income tax charge/(credit)		0.3	(0.5)	0.5
Net finance costs		2.5	3.1	6.0
Depreciation, amortisation and impairment		15.4	18.6	37.1
Inventory write down		–	1.0	1.0
Loss on disposal of property, plant, equipment and intangibles		0.2	1.3	0.1
Share-based payments		0.2	(1.2)	(1.3)
(Increase)/decrease in trade and other receivables		(1.0)	4.1	5.8
Government grants amortisation		(0.1)	(0.1)	(0.1)
Decrease/(increase) in inventories		2.5	(0.8)	(1.2)
Increase/(decrease) in trade and other payables		0.1	(5.5)	(5.4)
Decrease in provisions		–	(0.4)	(0.4)
Cash flows from operating activities		21.6	15.2	37.8
Tax on continuing operations		(0.2)	(0.4)	(0.4)
Net cash flows from operating activities		21.4	14.8	37.4
Cash flows used in investing activities				
Interest received		0.1	0.1	0.1
Purchases of property, plant and equipment		(6.2)	(11.7)	(18.5)
Expenditure on intangible assets		(0.2)	(0.5)	(0.9)
Net cash flows used in investing activities		(6.3)	(12.1)	(19.3)
Cash flows used in financing activities				
Proceeds from finance leases	12	15.9	16.7	38.7
Payment of finance leases	12	(18.8)	(21.8)	(48.0)
Proceeds from share issues		0.7	–	–
Interest paid		(2.6)	(3.2)	(6.1)
Net cash flows used in financing activities		(4.8)	(8.3)	(15.4)
Net increase/(decrease) in cash and cash equivalents		10.3	(5.6)	2.7
Effect of exchange on cash and cash equivalents		–	(0.4)	(0.1)
Cash and cash equivalents at beginning of period		30.1	27.5	27.5
Cash and cash equivalents at end of period		40.4	21.5	30.1

Condensed consolidated statement of changes in equity

For the six months ended 31 March 2010

	Share capital \$m	Share premium \$m	Retained earnings \$m	Foreign exchange \$m	Total \$m
At 1 October 2008	2.5	116.7	(54.4)	(0.9)	63.9
Exchange differences on foreign operations	–	–	–	0.6	0.6
Loss for the period	–	–	(4.4)	–	(4.4)
Total comprehensive (expense)/income for the period	–	–	(4.4)	0.6	(3.8)
Issue of ordinary share capital	–	–	–	–	–
Share-based payments	–	–	(1.2)	–	(1.2)
At 31 March 2009	2.5	116.7	(60.0)	(0.3)	58.9
Exchange differences on foreign operations	–	–	–	(0.3)	(0.3)
Profit for the period	–	–	0.1	–	0.1
Total comprehensive income/(expense) for the period	–	–	0.1	(0.3)	(0.2)
Issue of ordinary share capital	–	–	–	–	–
Share-based payments	–	–	(0.1)	–	(0.1)
At 30 September 2009	2.5	116.7	(60.0)	(0.6)	58.6
Exchange differences on foreign operations	–	–	–	0.2	0.2
Profit for the period	–	–	1.5	–	1.5
Total comprehensive income for the period	–	–	1.5	0.2	1.7
Issue of ordinary share capital	–	0.7	–	–	0.7
Share-based payments	–	–	0.2	–	0.2
At 31 March 2010	2.5	117.4	(58.3)	(0.4)	61.2

Notes to the condensed consolidated financial statements

For the six months ended 31 March 2010

1 Authorisation of financial statements and statement of compliance

Statement of compliance and approval of financial statements

These condensed consolidated interim financial statements have been prepared in compliance with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 September 2009.

These unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 March 2010 were approved by the Board on 20 May 2010.

2 Basis of preparation and accounting policies

a) Basis of preparation

The condensed consolidated interim financial statements are unaudited but have been formally reviewed by the auditors and their report to the Company is included on page 19. The comparative figures shown for the year ended 30 September 2009 do not constitute the Group's statutory financial statements as defined in Section 435 of the Companies Act 2006 and have been extracted from the Group's 2009 Annual Report and Accounts which have been reported on by the Group's auditor and have been filed with the Registrar of Companies. The Independent Auditors' Report on the financial statements contained within the Group's 2009 Annual Report and Accounts was unqualified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006.

The condensed consolidated interim financial statements are presented in US Dollars and all values are rounded to the nearest 0.1 million (\$m), except when otherwise indicated.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those set out in the Group's statutory financial statements for the year ended 30 September 2009 which were prepared under International Financial Reporting Standards as adopted by the European Union, except for the impact of the adoption of the standards and interpretations described below, and a change in the accounting policy for property, plant and equipment.

b) Property, plant and equipment

The Group has reviewed the economic useful lives of all assets and has determined that certain elements of medical devices (for example installation costs, computer and other peripherals) have a useful economic life of between three and five years depending on the specific circumstances of the assets, including the period over which the medical device is expected to be maintained at a particular customer site.

These peripheral components do not have a cost that is significant in relation to the total cost of the device and the medical device itself is still considered to have a useful economic life of five years.

The impact of this change on the results of the period was an increase to depreciation of \$0.1m.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual values based on prices prevailing at the balance sheet date of each asset evenly over its expected useful life as follows:

Medical devices	3 to 5 years
Leasehold improvements	10 years
Other plant and equipment	3 to 10 years

c) IFRS 8 Operating Segments

The Group has adopted IFRS 8 Operating Segments. The Group has two reportable segments, being North America and Rest of World markets. In assessing performance and making resource allocation decisions, the Operating Board (which is the Group's chief operating decision-making body) and the Board review revenues and gross profits by segment. The Group derives all its revenues from PPP rental agreements, service contracts and capital sales.

The business is managed on an integrated basis, with functions managed globally and decisions reached through cross-functional committees. In particular, R&D is actively targeted at enhancing the existing product for all markets. Manufacturing, marketing, sales, regulatory and support functions are managed and operate on a global basis and are not specific to individual markets or products.

Notes to the condensed consolidated financial statements

For the six months ended 31 March 2010 continued

2 Basis of preparation and accounting policies

d) IAS 1 (Revised 2007) Presentation of Financial Statements

In addition the Group has adopted IAS 1 (Revised 2007) Presentation of Financial Statements which has resulted in no change to the financial position or reported results. In compliance with the revised standard a Condensed Consolidated Statement of Comprehensive Income has been presented. The revised standard requires this statement to present all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

In reviewing the format of presentation, the balance sheet has been amended to show equity before non-current and current liabilities.

e) 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:

IAS 23	Borrowing Cost – Revised
IAS 27R	Amendment – Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 32 and IAS 1R	Amendment – Puttable Financial Instruments and Obligations arising on Liquidation
IAS 32	Amendment – Classification of Rights Issues
IAS 39	Amendment – Eligible Hedged Items
IFRS 1 and IAS 27	Amendments – Cost of Investment in Separate Financial Statements
IFRS 2R	Amendment – Vesting Conditions and Cancellations
IFRS 3R	Amendment – Business Combinations
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
Improvements to IFRS	Issued in May 2008

f) Going concern and liquidity

The Group's business activities and principal risks and uncertainties are detailed on pages 24 and 25 in the Annual Report and Accounts for the year ended 30 September 2009.

Having considered uncertainties under the current economic environment, and after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

This conclusion has been reached having considered the effect of liquidity risk on the Group's ability to operate effectively. Currently, liquidity risk is not considered a significant business risk to the Group given its level of cash, available debt facilities and cash flow projections. The key liquidity risks faced by the Group are considered to be the failure of banks where funds are deposited and the inability to secure additional debt finance in order to facilitate the expansion of the Group's business or to introduce new or improved products.

As part of this review the Directors considered the current levels of available debt facilities, the structure of the debt-finance being multiple asset-backed arrangements that are non-recourse on the Company, and indications of the availability of other sources of debt capital. The Directors also considered the levels of future business guaranteed under its PPP customer agreements and the pattern of future debt repayments associated with current finance obligations.

3 Segmental disclosures

The Group has two reportable segments, being North America and Rest of World markets. In assessing performance and making resource allocation decisions, the Operating Board (which is the Group's chief operating decision-making body) and the Board review revenues and gross profits by segment.

Optos' 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 principally on a PPP basis, usually with a minimum monthly usage level being agreed. Additional revenue is generated from the sale of retinal examination equipment and associated income from the sales of service and warranty.

The business is managed on an integrated basis, with functions managed globally and decisions reached through cross-functional committees. In particular, R&D is actively targeted at enhancing the existing product for all markets. Manufacturing, marketing, sales, regulatory and support functions are managed and operate on a global basis and are not specific to individual markets or products.

An analysis by operating segment is given below for the six months ended 31 March 2010:

	North America 2010 (Unaudited) \$m	Rest of World 2010 (Unaudited) \$m	Total 2010 (Unaudited) \$m
Revenue			
PPP revenue	40.3	5.1	45.4
Sales of goods	1.0	0.3	1.3
Warranty and service contracts	0.6	–	0.6
Segment revenue	41.9	5.4	47.3
Segment cost of sales	(13.7)	(2.4)	(16.1)
Segment gross profit	28.2	3.0	31.2
Selling and distribution costs			(10.6)
Administrative expenses			(16.1)
Share-based payments			(0.2)
Operating profit			4.3
Net interest			(2.5)
Profit from continuing operations before taxation			1.8

Notes to the condensed consolidated financial statements

For the six months ended 31 March 2010 continued

3 Segmental disclosures continued

An analysis by operating segment is given below for the six months ended 31 March 2009:

	North America 2009 (Unaudited) \$m	Rest of World 2009 (Unaudited) \$m	Total 2009 (Unaudited) \$m
Revenue			
PPP revenue	42.5	3.9	46.4
Sales of goods	0.8	–	0.8
Warranty and service contracts	0.6	–	0.6
Segment revenue	43.9	3.9	47.8
Segment cost of sales	(16.7)	(1.7)	(18.4)
Segment gross profit	27.2	2.2	29.4
Selling and distribution costs			(11.4)
Administrative expenses			(21.4)
Share-based payments			1.6
Operating loss			(1.8)
Net interest			(3.1)
Loss from continuing operations before taxation			(4.9)

An analysis by operating segment is given below for the year ended 30 September 2009:

	North America 2009 (Audited) \$m	Rest of World 2009 (Audited) \$m	Total 2009 (Audited) \$m
Revenue			
PPP revenue	85.0	8.5	93.5
Sales of goods	2.1	0.4	2.5
Warranty and service contracts	1.2	–	1.2
Segment revenue	88.3	8.9	97.2
Segment cost of sales	(34.0)	(4.2)	(38.2)
Segment gross profit	54.3	4.7	59.0
Selling and distribution costs			(22.6)
Administrative expenses			(35.8)
Share-based payments			1.6
Operating profit			2.2
Net interest			(6.0)
Loss from continuing operations before taxation			(3.8)

4 Exceptional items

There are no exceptional items in the six months ended 31 March 2010.

Following the appointment of Roy Davis as Chief Executive Officer in the 2009 financial year, a comprehensive strategic review of the business was undertaken. This review resulted in a decision to focus on the Group's core optometry business which would be managed on a global functional basis. As a result the Company instigated a restructuring programme which was announced by the Company on 26 February 2009.

This strategic review together with some technical changes in the Company's products led to changes in the Company's product processes and future production plans. As a result certain items of inventory were identified which would no longer be used in the production of any of the Company's products going forward and were written off.

The change to future production plans resulted in a decision to no longer outsource integration of the medical devices and to bring it back in-house. As a consequence of this the Company suffered penalties from suppliers for cancelling contracts.

In addition a review of completed and ongoing development programmes was undertaken which resulted in the write down of development costs previously capitalised as intangible fixed assets and which related to projects which no longer formed part of the strategic focus and were no longer expected to be commercialised.

As a consequence \$4.9m was recorded as exceptional items in the first half of 2009 and \$1.4m in the second half of 2009.

5 Revenue

	Six months ended 31 March 2010 (Unaudited) \$m	Six months ended 31 March 2009 (Unaudited) \$m	Year ended 30 Sept 2009 (Audited) \$m
Revenue			
Sales of goods	1.3	0.8	2.5
Rendering of services	46.0	47.0	94.7
Revenue	47.3	47.8	97.2
Finance revenue	0.1	0.1	0.1
Total revenue	47.4	47.9	97.3

No revenue was derived from exchanges of goods or services.

Revenues from the rendering of services includes \$45.4m (H1 2009: \$46.4m; FY 2009: \$93.5m) in relation to PPP customers and \$0.6m (H1 2009: \$0.6m; FY 2009 \$1.2m) in relation to revenues from contracts to maintain and service the Company's devices.

6 Share-based payments

The Company has operated discretionary share option arrangements details of which can be found on pages 76 and 77 of the Group's Annual Report and Accounts for the year ended 30 September 2009.

The total charge for share-based payments for the six months ended 31 March 2010 was \$0.2m (H1 2009: credit of \$1.2m; FY 2010: credit of \$1.3m), with an additional charge of \$nil (H1 2009: credit of \$0.4m; FY 2010: credit of \$0.3m) in respect of National Insurance. The credit in 2009 reflected the lapsing of certain share awards that had been granted to former employees who left the Group's employment before the awards vested and reduced expectations in the anticipated costs of options with performance vesting criteria.

Notes to the condensed consolidated financial statements

For the six months ended 31 March 2010 continued

7 Taxation

The tax charge for the interim period was \$0.3m (H1 2009: credit \$0.5m; FY 2009: charge \$0.5m) comprising \$0.2m (H1 2009: (\$0.6m); FY 2009: \$0.9m) of current tax and \$0.1m (H1 2009: \$0.2m; FY 2009: \$0.5m) of deferred tax. In the six months ended 31 March 2010, \$0.2m (H1 2009: \$0.4m; FY 2009: \$0.4m) was paid in the US in respect of certain minimum taxes levied by certain state tax authorities.

Deferred tax assets totalling \$9.6m (H1 2009: \$9.9m; FY 2009: \$9.7m), primarily in respect of trading losses, have been recognised as there has been sufficient evidence to conclude that these losses will be recoverable in the future.

Deferred tax assets totalling \$11.0m (H1 2009: \$17.5m; FY 2009: \$14.7m) in respect of trading losses incurred in the UK and the US (H1 2009: trading losses incurred in the UK; FY 2009 trading losses incurred in the UK and the US) have not been recognised on the grounds that there is not sufficient evidence to conclude that the losses giving rise to these assets will be utilised. The continued availability of the tax losses is subject to certain conditions being met and the level of tax losses not being successfully challenged by the relevant tax authorities.

8 Profit/(loss) per ordinary share

Basic earnings per share amounts are calculated by dividing the profit/(loss) before and 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 profit/(loss) before and 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 profit/(loss) per ordinary share is calculated as follows:

	Six months ended 31 March 2010 (Unaudited)	Six months ended 31 March 2009 (Unaudited)	Year ended 30 Sept 2009 (Audited)
Weighted average number of ordinary shares in issue	69,579,454	69,183,072	69,528,126
Effect of dilution: share options	63,475	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	69,642,929	69,183,072	69,528,126
Profit/(loss) before taxation (\$m)	1.8	(4.9)	(3.8)
Basic profit/(loss) before taxation per share (cents)	2.5	(7.0)	(5.5)
Diluted profit/(loss) before taxation per share (cents)	2.5	(7.0)	(5.5)
Profit/(loss) after taxation (\$m)	1.5	(4.4)	(4.3)
Basic profit/(loss) after taxation per share (cents)	2.1	(6.4)	(6.1)
Diluted profit/(loss) after taxation per share (cents)	2.1	(6.4)	(6.1)

9 Property, plant and equipment

During the six months ended 31 March 2010, the Group acquired assets with a cost of \$6.2m (H1 2009: \$8.8m; FY 2009: \$18.5m); and disposed of assets with a net book value of \$0.2m (H1 2009: \$1.3m; FY 2009: \$0.1m). Depreciation for the reporting period was \$14.3m (H1 2009: \$15.0m; FY 2009: \$32.0m). There were no impairment charges to property, plant and equipment.

10 Intangible assets

During the six months ended 31 March 2010, the Group capitalised intangible assets of \$0.2m (H1 2009: \$0.8m; FY 2009: \$0.9m) and amortised intangible assets of \$1.2m (H1 2009: \$0.8m; FY 2009: \$1.6m). There were no impairment charges to intangible assets.

As at 31 March 2010, the net book value of Group intangible assets was \$8.0m (H1 2009: \$10.4m; FY 2009: \$9.0m). Of this total at 31 March 2010, \$7.2m (H1 2009: \$9.2m; FY 2009: \$8.2m) related to development costs, with the balance relating to software and intellectual property costs.

11 Cash and cash equivalents

	Six months ended 31 March 2010 (Unaudited) \$m	Six months ended 31 March 2009 (Unaudited) \$m	Year ended 30 Sept 2009 (Audited) \$m
Cash at bank and in hand	33.1	11.5	18.2
Short-term deposits	7.3	10.0	11.9
	40.4	21.5	30.1

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

12 Finance lease commitments

During the six months ended 31 March 2010, the Group raised additional funding through vendor finance of \$15.9m (H1 2009: \$16.7m; FY 2009: \$38.7m) and made repayments to third party providers of vendor finance of \$18.8m (H1 2009: \$21.8m; FY 2009: \$48.0m). Total finance lease commitments outstanding at 31 March 2010 were \$73.1m (H1 2009: \$80.7m; FY 2009: \$76.3m).

13 Related party transactions

There were no related party transactions during the six months ended 31 March 2010 (H1 2009: \$nil; FY 2009: \$5,000). During the year ended 30 September 2009, purchases totalling \$5,000 at normal market prices were made by Group companies from Crombie Anderson Limited, of which DC Anderson is a Director and controlling shareholder. There was \$nil outstanding at 31 March 2010 (H1 2010: \$nil; FY 2009: \$nil).

Directors' responsibility statement and forward-looking statements

Responsibility statement of the Directors in respect of the interim financial report for the period ended 31 March 2010

The Directors of Optos plc at 20 May 2010 are listed on page 20.

The Directors confirm to the best of their knowledge that:

- this condensed set of financial statements has been prepared in accordance with IAS 34;
- the interim management report includes a fair review of the information required by DTR 4.2.7R; and
- the interim management report includes a fair review of the information required by DTR 4.2.8R.

BY ORDER OF THE BOARD

John McNeil

Company Secretary
20 May 2010

Forward-looking statements

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.

Independent review report to Optos plc

For the six months ended 31 March 2010

Introduction

We have been engaged by the Company to review the condensed consolidated set of financial statements in the interim financial report for the six months ended 31 March 2010 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Cash Flows, Condensed Consolidated Statement of Changes in Equity, 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 consolidated 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 consolidated 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 consolidated set of financial statements in the interim financial report for the six months ended 31 March 2010 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 2010

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Non-executive Chairman

Roy Davis

Chief Executive Officer

Christine Soden

Chief Financial Officer

Anne M Glover, CBE

Non-executive Director

Patrick R D Paul

Non-executive Director

Barry M Rose

Non-executive Director

Rosalyn S Wilton

Non-executive Director

Registered number

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Company Secretary

John McNeil



Optos plc's commitment to environmental issues is reflected in this Interim Report which has been printed on Satimatt Green 75% recycled fibre and 25% FSC certified fibre and Revive 50, comprising 50% recycled fibre and 50% virgin fibre, certified by the FSC and produced at mills with ISO 14001 environmental management systems. This Report was printed by Beacon Press using **pureprint**, their environmental print technology which minimises the impact of printing on the environment. All energy used comes from renewable sources, vegetable based inks have been used 98% of dry waste is diverted from landfill. Beacon Press is a CarbonNeutral® printer.



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