

## OPTOS PLC

### Preliminary Results

#### Return to Full Year Profitability

**LONDON, UK, 24 November 2010** – Optos plc (LSE: OPTS), a leading medical retinal imaging company, today announces its preliminary results for the year ended 30 September 2010. The results are denominated in \$US which is the Company's reporting currency.

#### Financial Highlights

	Year ended 30/09/10	Year ended 30/09/09
<b>Total revenue</b>	<b>\$106.3m</b>	<b>\$97.2m</b>
Operating lease revenues from rental of devices	\$89.0m	\$93.5m
Device sales under finance leases	\$7.7m	-
Device sales - outright	\$8.1m	\$2.5m
Service & warranty revenues	\$1.5m	\$1.2m
<b>Operating profit</b>	<b>\$17.5m</b>	<b>\$2.2m</b>
<b>Profit/(loss) before tax</b>	<b>\$12.7m</b>	<b>(\$3.8m)</b>
<b>Profit/(loss) after tax</b>	<b>\$14.0m</b>	<b>(\$4.3m)</b>
<b>EPS (diluted) - cents</b>	<b>19.9c</b>	<b>(6.1)c</b>
<b>Cash flow from operating activities</b>	<b>\$46.4m</b>	<b>\$37.4m</b>
<b>Operating cash flow per share (diluted) - cents</b>	<b>66.2c</b>	<b>53.8c</b>
<b>Free cash flow/revenues</b>	<b>26%</b>	<b>19%</b>
<b>Net debt (cash less lease finance liabilities)</b>	<b>(\$21.1m)</b>	<b>(\$46.2m)</b>

#### Business Highlights

- Financial performance ahead of expectations
  - Revenues up 9% or \$9.1m to \$106.3m
  - Includes revenues of \$7.7m from device sales under finance leases
- Strong improvement in profitability to \$12.7m ( FY09: \$3.8m loss after \$6.3m exceptional items)
  - Gross margins improved from 61% to 67%
  - Operating margins increased to 16% (FY09: 9% pre-exceptional items)
- Significant increase in cash generation, reducing net debt to \$21.1m
  - Operating cash flow up 24% or \$9.0m to \$46.4m, free cash flow up \$9.7m to \$27.7m
  - Cash flow not impacted by accounting treatment of rental contracts
- Good impact from new business models and asset utilisation
  - Future cash flow secured increased by \$20m to \$180m
  - Total installed base increased by 115 to 3,912 (3,542 operating leases, 88 finance leases and 282 outright device sales)
  - Average monthly **optomaps** per site up 5% to 110 (FY09:105)
- New product lines and distribution network to support future growth
  - 200Dx and 200Tx from internal development, now being launched
  - Accutome distribution agreement adds three new hand held ophthalmic devices
  - Proposed acquisition of Opto Global adds new products and an extensive international distribution network

The CEO of Optos, Roy Davis, commented: “In the last financial year, we have delivered a solid improvement in revenues, returned to a healthy profit and generated very strong cash flows. We have also made good operational progress, and expanded our product portfolio through internal development and acquisition. The launch of our next generation 200Dx and 200Tx products in the coming months and the marketing of our newly acquired products from Accutome and Opto Global leaves us confident that we can continue to drive sales in the current financial year.

“With good revenue visibility and an improving product portfolio being marketed by a focused salesforce, we are confident that Optos can continue to deliver growth and become a leading supplier of device solutions to the optometry and ophthalmology communities.”

## **Enquiries**

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## **About Optos Plc**

Optos plc is a leading retinal imaging company. Our vision is to be recognised as a leading provider of devices and solutions to ophthalmic professionals for improved patient care. Optos' core devices produce ultra wide-field, high resolution digital images of approximately 82% of the retina, something no other device is capable of doing in any one image. The images provide optometrists and ophthalmologists with enhanced clinical information which facilitates the early detection, management and treatment of disorders and diseases evidenced in the retina such as retinal detachments and tears, glaucoma, diabetic retinopathy and age-related macular degeneration. Retinal imaging can also indicate evidence of non-eye or systemic diseases such as hypertension and certain cancers.

Optos has a range of medical devices that support different customer segments and patient levels: the P200 and 200Dx devices are concentrated on wellness screening carried out by optometrists and ophthalmologists in primary care; the P200C and 200Rx devices are designed to meet the need for more exacting clinical imaging capabilities and standards in secondary care within the ophthalmology market and at optometric practices that are clinically managing a patient base with advanced ocular disease; and the P200MA and 200Tx devices supports ophthalmologists and retinal specialists in the medical care market. Optos' product range has recently been expanded to include the AccuPen, PachPen and B-Scan handheld devices for glaucoma and tumour management. The acquisition of Opto Global will, upon completion, add additional devices for both optometrist and ophthalmologist practices, and expand the geographic reach outside our core North American and European markets.

For more information please visit our website [www.optos.com](http://www.optos.com)

## **Forward-Looking Statements**

Certain statements made in this announcement 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 announcement. The forward-looking statements made in this announcement 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 announcement except as required by law or by any appropriate regulatory authority.

## OPTOS PLC

### Preliminary Results Statement

Year Ended 30 September 2010

#### Chairman's Statement

I have great pleasure in presenting my first report to shareholders since joining Optos as your Chairman in January. This year, we have made good corporate progress, enhancing our product portfolio and introducing new business models to drive revenue growth and delivering materially improved profits and cashflow.

We have established a strong platform upon which to build our business. Over 27million wide-field retinal digital **optomap** examinations have been conducted by eyecare specialists and around 4,000 of the Optos scanning devices are currently installed in optometry and ophthalmology practices in the markets we serve.

We set out this year to further capitalize upon the excellent platform that we have established. Specifically, we have focused on enhancing the range of products that we offer, both arising from our own development projects, and by accessing additional products externally. Moreover, we have implemented new ways for our customers to access our technology, particularly in the ophthalmology community.

Based on market research studies conducted amongst our customers, we have introduced more flexible pricing models and structures. We now offer our customers our existing 3-year pay-per-patient rental contracts, longer-term rental contracts with more flexible pricing arrangements, fixed rental programmes, rentals with a right to buy the device, and outright purchase of our devices.

As a result, and despite the ongoing uncertainty in global economies, we were pleased to report revenues of \$106.3m for the year ended 30 September 2010 compared to \$97.2m in the previous year. Revenues from operating leases, outright device sales and service and warranty contracts amounted to \$98.6m and a further \$7.7m arose from device sales under finance leases. Based on this increase in revenues, and as a result of the restructuring we undertook last year, profitability improved markedly, with pre-tax profits of \$12.7m compared to a profit before exceptional items of \$2.5m in the previous year and EPS of 19.9c compared to a loss of 6.1c last year. Moreover our net debt reduced by \$25.1m in the year, from \$46.2m to \$21.1m, with \$41.2m of cash in hand at the year end.

We anticipate further building on our core technology by enhancing our current product offering, expanding our reach into ophthalmology, increasing our geographic coverage and acquiring additional devices. During the year we have developed the 200Dx, our P200 device with enhanced image quality and patient interface that will be rolled out from next month. In recent weeks we have determined our customers would best be served if our core optometry business was supplemented by a new team, Optos Ophthalmology, serving specifically the ophthalmology and vitreo-retinal specialists. We are delighted with the reception accorded to the recent unveiling of our 200Tx device at the American Academy of Ophthalmology. The 200Tx is the newest version of our P200MA device, enhanced with the ability to undertake wide-field auto-fluorescence images that are important in the diagnosis and management of widely prevalent diseases such as age-related macular degeneration.

We are also pleased with the progress achieved in our Project Daytona, the development of our next generation ultra-widfield retinal scanner. The product specifications are to create a desk-top sized high specification, high resolution device that is modular, robust, reliable and patient friendly. Our current plans would see the introduction of this device in the first half of our FY12, targeted primarily at clinical optometrists. We are also developing a follow-on device for the ophthalmology market, with the attributes of the Daytona devices enhanced with features such as auto-fluorescence and fluorescein angiography, both important in the medical treatment of eye diseases and conditions.

In support of our aim of ensuring that wide-field retinal imaging becomes the "gold standard" in eye examinations, we have delivered some strong clinical results and have a number of major clinical studies underway.

We are delighted to have secured the distribution rights over three devices from Accutome which will be sold by our sales channel from this month. We are also pleased to have reached terms with the Australian company, Opto Global, over the acquisition of their business. Opto Global has a range of medical devices that are sold through a strong distributor network. Both companies see strong synergies between the two businesses, with the opportunity to sell Optos products through the Opto Global distributor networks and the Opto Global products through our direct salesforce. We expect the acquisition to complete by the end of January 2011.

I would like to thank two of our directors, my predecessor as Chairman John Padfield, and Anne Glover, an early investor in the Company, both of whom retired within the last financial year, for their outstanding contributions to the growth and development of this exciting, technologically advanced Company. I would also like to welcome Dr Peter Kehoe as a non-executive director. I believe that his outstanding knowledge and reputation in the optometry field will be of sustained benefit to Optos in the years to come. I would also thank our investors for their support during the past year, and our employees for their outstanding efforts this year which have created a significant improvement in our results.

We look forward to the next year with confidence, with a strong product range delivered across an enhanced sales channel. We believe that our goal, of being a leading provider of devices to ophthalmic professionals for improved patient care, is highly achievable in the medium term.

**Dr Peter Fellner**, Chairman

## Business Review

Despite a challenging economic environment, we were very pleased to generate a pre-tax profit of \$12.7m compared to a loss of \$3.8m in the previous year and to increase our top line by 9.0% to \$106.3m, both underpinned by strong cash generation and an increase in our installed base to 3,912 customers. Driving this performance was the introduction of new business models that are attractive to new and renewing customers, together with a continued focus on asset utilisation.

## Business Model Changes and Overview

As described above, our financial results have been significantly influenced by changes in our business models. Whilst our pay-per-patient (PPP) device rental model remains well-accepted by many customers, a number of other customers-particularly in the ophthalmology sector- wished to acquire their devices outright. In addition we now offer renewing customers the option of extending their contracts on reduced minimum rental terms or purchasing their devices at the end of their contract term at prices that reflect their loyalty over the years. For new customers we reviewed our pricing and also started to offer alternative funding solutions such as fixed rental payments, longer-term contracts and rental contracts offering the customer the right to buy the device at pre-determined times and prices.

As a consequence, we saw increased revenues from the outright sales of devices and, in a small number of cases (88 customers), saw a change in the classification of our contracts away from operating leases, where the terms of the rental contract left the risks and rewards of owning the devices with the company, to finance leases, where the risks and rewards of the owning the devices sit with the customer. Where a contract is classed as a finance lease, the underlying device is accounted for as having been sold to the customer on deferred payment terms. Whether accounted for as operating or finance leases, our rental contracts provide a security and visibility of future cashflows to the business.

In the future, an increasing proportion of our revenues are likely to arise from sales of devices either outright or under finance leases, together with related service and warranty income, particularly as we move further into ophthalmology and towards the introduction of our next generation desk-top devices.

Our revenues of \$106.3m comprise of \$7.7m from sales of devices under finance leases, together with \$98.6m from operating lease rentals, service and warranty income and outright sales of devices.

Operating lease rentals were \$89.0m (FY09:\$93.5m) of which \$69.4m (FY09:\$73.8m) arose from fixed minimum monthly payments (MMPs) and \$19.6m (FY09: \$19.7m) from variable **optomaps**. Outright device sales generated \$8.1m (FY09: \$2.5m) and service and warranty income \$1.5m (FY09:\$1.2m) arising from maintenance contracts purchased by customers who own their devices and inherent in the finance lease contracts.

Our asset utilisation efforts remained effective, with the average monthly **optomaps** for the year being 110 compared to 105 last year, a year-on-year growth of 5%. This increase was offset by the loyalty discounts put in place to secure renewals and future revenues. Securing longer term contracts from new and renewing customers has meant that our future minimum revenues receivable under non-cancellable lease contracts at the end of FY10 increased by \$13.1m to \$169.8m of which \$65.4m is receivable in FY11.

In addition to these future revenues, we have secured a further \$9.5m of future cashflows under the finance lease contracts, meaning that our guaranteed cashflows under contracts increased from \$156.7m to \$179.3m in the year.

Gross profits increased significantly, with gross margins rising from 61% last year to 67% this. Gross margins on the operating lease and service business showed the benefit of operating efficiencies and lower depreciation charges and increased to 64% (FY09: 60%). The gross margins on capital sales were 80% (FY09:72%) and those on finance leases 79%, reflecting the product mix and lower net book value of the P200 devices in particular.

Operating margins increased from 9% in FY09 (before exceptional costs) to 16% this year, reflecting improved revenues and gross margins, with overheads held broadly at the same underlying level as in FY09. Interest charges reduced with lower debt levels, resulting in a pre-tax profit of \$12.7m, a margin of 12% on revenues.

Our reliance on vendor financing to support our business has lessened as our profitability has increased and our capital expenditure reduced. Moreover, outright capital sales have the impact of bringing forward cashflows. During the year we drew down \$24.2m (FY09:\$38.7m) of new lease finance and repaid \$37.4m (FY09:\$48.0m), reducing our lease-finance liabilities from \$76.3m to \$62.3m over the year. We expect our debt levels to reduce further in the coming financial years.

The year-end cash balance of \$41.2m was \$11.1m higher than at the start of the year, giving a net debt balance (cash less vendor lease finance liabilities) of \$21.1m, an improvement of \$25.1m in the year.

## **Business Development**

We have worked to upgrade, refresh and renew our technology platforms such that they attract customers from both optometry and ophthalmology segments. We are ensuring we employ specialists to properly understand the needs of and serve both groups and will target our clinical and product development, product acquisition and sales and marketing programmes accordingly.

### Organic

We are making good progress in advancing our product platforms, adding the 200Dx alongside our core P200 device. The 200Dx delivers significant improvements in the image quality compared to the P200, and has enhanced patient-friendly features that should aid operators in obtaining clear, consistent images. These devices, together with the 200Rx (the upgraded and rebranded P200C) will be the principal retinal imaging products available to optometrists.

In October we unveiled our 200Tx device at a leading ophthalmology congress. This device, based on our P200MA product, offers a range of disease-management options important to our ophthalmologist and vitreo retinal specialist customers. In particular, our auto-fluorescence option offers an unparalleled capability to safely and rapidly image 80% of the retina in a single scan.

### Acquisition

We are pleased to have secured distribution rights to three ophthalmic devices from Accutome. These handheld products, the AccuPen and PachPen used in glaucoma management and B-Scan ultrasound device used in the management and assessment of ocular lesions and tumours, are welcome additions to our product portfolio.

We are hoping to add further devices to our product offering through the proposed acquisition of Opto Global. In acquiring this business, we will bring a significant network of distributors in the Middle and Far East, Africa and Central and South America and a direct sales force in Australia, through which channels we can promote our current Optos devices. Furthermore we gain access to an exciting range of products that can be sold through our existing sales channels, with the greatest opportunity in the North American market where Opto Global has virtually no market penetration. The products include devices commonly used by optometrists, such as in perimetry and visual acuity testing, and others used by the ophthalmologists in their treatment regimes, including a range of photo-disruption and photo-coagulation lasers.

## **Geographic Markets**

Revenues in North America totalled \$93.4m (FY09: \$88.3m), with \$78.9m (FY09:\$85.0m) from operating lease revenues, \$5.9m (FY09:\$2.1m) from device sales and the balance from finance lease revenues and service contracts. The fall in operating lease revenues reflects in particular the maturity of the P200 device in the US market. This was a further factor in leading us to revise business models and also accentuates the need to introduce our desktop model as soon as we can. During the year we re-launched our newer P200C and P200MA devices and saw better market penetration amongst ophthalmology-led practices.

The Rest of World markets delivered growth of 45%, with revenues increasing from \$8.9m in FY09 to \$12.9m in FY10. Rental revenues increased from \$8.5m to \$10.1m and device sales from \$0.4m to \$2.2m, with an overall increase in ROW customers of 96 to 468. Germany remains our largest market outside North America, followed by the UK, Norway, Sweden, Spain and Switzerland. We also secured opportunities to sell P200 devices into Korea and China together with some sales of P200C and P200MA devices into South East Asia and Australia.

Our field force in North America now consists of 49 representatives and as we move into FY11 we have appointed three ophthalmology specialists to lead our business in that area with support from the general salesforce. We have 17 account managers in Europe and through the acquisition of Opto Global, we will be looking to expand our presence in existing and new markets in the coming months.

### **Clinical Studies**

A key component of our strategy has been to provide clinical data to support use of our products in the optometry and ophthalmology sectors.

In a study of 170 patients conducted by doctors at the New England College of Optometry (NECO) it was demonstrated that image-assisted examination using the Optos ultra-wide field P200C had a 30% greater capability to detect retinal lesions compared to traditional ophthalmoscopy.

We also reported results of a study conducted by Moorfields hospital (London) in conjunction with the Reykjavik 12-year Follow-Up Eye Study aimed at establishing the incidence of cataract, glaucoma and age-related macular diseases in Reykjavik, Iceland, by type and grade and to search for risk factors. Optos was invited to take part in the follow-up study as the Optos P200 wide-field imaging technology had the potential to detect changes that may be associated with disease in the periphery of the retina. The study on 573 participants found that 56% of participants had symptoms on the periphery of the retina with features that are normally associated with AMD. Seven participants had changes on the periphery without end-stage disease in the macula. No-one with end-stage disease in the macula had a normal retinal periphery.

The results of an important study by the Joslin Institute into diabetic retinopathies are being analysed and will be reported in the coming months.

During the next two to three years, Optos intends to participate in several further multi-centre studies on large patient samples seeking to further demonstrate the ability of image assisted widefield digital examination to improve diagnosis and treatment. For example, Optos is participating in the AREDS2 study, a major study in age-related macular degeneration run by the National Eye Institute in some 4,200 subjects to determine methods to slow the progression of vision loss from age-related macular degeneration.

### **Research & Development**

Excellent progress has been made across a range of research and development programmes in the year. We are now releasing our 200Dx devices into the marketplace. These devices build on the core P200 device, but offer significant improvements in image technology, particularly in the clarity of the image in the superior field at the top of the retina.

The unveiling of our 200Tx device created significant interest from ophthalmologists and vitreo-retinal specialists. The device, manufactured at Optos' facility in Scotland, will be available for sale in early 2011. The device will be sold through a range of business models, from pay-per-patient rental agreements to outright device sales.

The 200Tx is the first imaging device that provides visualisation of ultra-widefield auto-fluorescence changes to retinal pigment epithelium (RPE), the pigmented cell layer just outside the neurosensory retina that nourishes retinal visual cells. The study of such cellular changes is central to the management of diseases such as age-related macular degeneration (AMD). The 200Tx offers multiple wavelength imaging including options for colour, red-free, fluorescein angiography and auto-fluorescence, each of which can reveal different pathologies.

A promising study in AMD led by Srinivas Sadda M.D., of the Doheny Eye Institute, University of Southern California using the 200Tx device found that 76% of eyes in patients with AMD had peripheral abnormalities, and the addition of auto-fluorescence capability to retinal scanning technologies was seen to aid in the detection of AMD.

The 200Tx device was also used in a study into diabetic retinopathy that found ultra-widefield angiography significantly improves the visualisation of retinal pathology, influences classification of diabetic retinopathy and impacts follow-up management of diabetic patients.

Our next generation operating software is close to completion, and will offer further enhancements to the images, image manipulation tools and a facility to "push" future software versions to our customers, plus the introduction of an image-management system which is planned to be available in 2011.

Progress on Project Daytona, the development of a compact, high-quality, desk-top device is progressing well. The device will capitalise on significant technology improvements and where possible will incorporate relevant technologies developed and proven in alternative uses and industries. Current plans see the device being unveiled late in 2011 and launched in FY12.

The potential acquisition of Opto Global will bring laser technologies, and the medium term strategy will be to use Optos' digital imaging to guide treatment procedures. Looking forward, disease management related software will fit with the "see and treat" strategy the company believes will be an important driver of growth. Overall we target gross investment in research and development at 6-7% of revenues in the next financial year.

## **Operations**

As reported last year, our operations group recommenced the manufacture of the P200C and P200MA devices, building and refurbishing some 300 devices in the year. These operations took place in our manufacturing centre in Scotland whilst our US based operation focused on the refurbishment of P200 devices, refurbishing 560 devices to the standard of a new device. Throughout the year significant efficiencies have been seen through the introduction of Lean principles into our ways of working, with reduced build times, reduced waste, lowered inventory levels and higher throughput.

Looking into FY11, the operations team is focused on improving margins and increasing product reliability. We are building the capability to repair and refurbish P200C, P200MA and 200Tx devices into our US facility to better support our customer base.

Service and support is managed through our customer service centres in the US and UK, who seek to resolve customer issues remotely in the first instance and to schedule maintenance visits by our field service engineers if the problem cannot be fixed over the telephone. Our support and service operation is comprised of 48 employees.

## **Gross Margins, Operating Costs, Exceptional Items and Operating Profits**

The restructuring implemented in the first half of 2009 was effective in minimising the cost of goods and overheads in the current financial year.

The overall cost of goods reduced from 39% to 33%. The direct cost of sales of the outright device sales were \$1.6m (20% of revenues) and that of the device sales under finance leases \$1.6m (21% of revenues). These represented the net book values of the devices underlying the sales, which were relatively low. There is no guarantee that future devices can be sold at such a high margin as these will vary with the underlying cost or carrying value of the specific asset.

The balance of cost of sales of \$32.2m (FY09:\$37.5m) represented the cost of supporting the operating lease revenues and service costs resulting in a gross margin of 64%. The major component of this charge is depreciation of our medical devices of \$27.7m (FY09:\$30.4m). The balance is made up of certain freight costs, service and repair costs and promotional costs. As depreciation charges reduce, in FY11 we anticipate an improvement in the gross margin on our operating lease contracts, that is expected to be offset by the lower margins achieved on sale of our P200C and P200Tx devices.

Overheads for the year before share-based payments were \$52.8m compared to \$52.1m in the previous year before exceptional items. \$24.5m (FY09:\$22.5m) related to sales, service and support costs with the balance of \$28.3m (FY09:\$29.6m) representing research and development, marketing, quality assurance, IT, HR, administrative and central costs.

Average numbers of employees were 277 compared to 295 in the previous year although actual employees at the year-end had increased to 296. Staff costs for the year (before share-based payments) were \$29.7m compared to \$27.0m in the previous year, reflecting increased incentive payments arising from improved revenue and profit performance, and investment in upgrading certain key positions and in employee development.

Operating profits increased to \$17.5m (including some \$6.1m arising from finance lease transactions) compared to \$8.5m in the previous year before exceptional items, and \$2.2m after exceptional items. The operating profit in FY09 benefitted from a credit of \$1.6m in respect of share-based payments in the year compared to a cost of \$0.6m in FY10.

## **Profit on Ordinary Activities before Tax, Taxation and Post Tax Profits**

The Group made a profit on ordinary activities before tax of \$12.7m compared to \$2.5m before exceptional items and a loss of \$3.8m after exceptional items in the prior year.

The interest charge for the year was \$5.0m compared to \$6.1m the previous year, mirroring the reduction in vendor finance obligations. Average interest rates paid were 7%.

A tax credit of \$1.3m arose in the year (FY09: charge of \$0.5m), comprising a current tax charge of \$nil (FY09: \$1.0m) and a deferred tax credit of \$1.3m (FY09:\$0.5m). The current tax charge relates primarily to overseas tax liabilities offset by an adjustment in respect of prior periods. The deferred tax credit results from the annual review of deferred tax asset recognition, the conclusion of which is that it is appropriate to recognise deferred tax assets in respect of the portion of UK and US tax losses that are expected to be utilised in the foreseeable future and in respect of all tax losses in Canada and Germany. The effective tax charge on the current year profits was largely matched by the recognition of an additional \$4.6m of deferred tax asset. In cash terms, the Group incurred only \$0.2m of taxes levied from certain minimum federal and state taxes in the US, which was offset by refunds received for prior periods.

The resultant post-tax profit was \$14.0m, representing earnings per share of 19.9c (18.1c before tax) compared with a final loss per share of 6.1c in the previous year.

## **Cash Flow**

Cash flow from operating activities was strong at \$46.4m, \$9.0m higher than that in the prior year. Investing activities used \$18.5m (FY09: \$19.3m), net of finance income, in building and refurbishing medical devices and on acquiring intangible assets. Free cash flow, the operating cashflow after investment in tangible and intangible assets and cash receipts from finance lease receivables increased significantly by \$9.7m to \$27.7m.

Working capital released \$1.3m of cash in the year (FY09:\$0.8m). Debtors were high as a result of high capital sales towards the end of the year. Inventory balances reduced and payables increased, largely as a result of an increased provision for commissions and bonuses payable after the year end.

Capital expenditure in the year was \$19.1m of which \$1.6m invested in intangible assets with respect to internal R&D software and hardware development programmes. The balance of \$17.5m included \$1.5m in plant and equipment and \$16.0m (FY09:\$17.6m) in building and refurbishing medical devices.

Net cash flows from financing activities resulted in net cash outflows of \$16.7m (FY09:\$15.4m) with payments on capital of \$37.4m and interest of \$5.0m outweighing the \$24.2m receipts from new lease arrangements and \$1.5m proceeds from the exercise of share options.

Net cash increased by \$11.1m during the year to a year-end cash balance of \$41.2m and net debt (cash less finance lease obligations) reduced from \$46.2m to \$21.1m.

## **Balance Sheet**

Shareholders equity and net assets at the year-end were \$75.0m, a \$16.4m increase in the year, principally reflecting the profit for the year, share option proceeds and adjustment for share-based payments.

Non-current assets reduced from \$98.1m to \$87.8m, largely as a result of depreciation and amortisation outweighing capital additions. Subject to sales mix, the Company expects a further reduction in 2011 in the net present value of medical devices with additional capital sale and finance lease contracts and the investment in building and refurbishing devices being outweighed by depreciation.

Across the 4,000 devices on operating lease agreements and in the warehouse, the carrying value of medical devices was \$60.6m at the year end, an average carrying value of approximately \$15k with the newer P200C and P200MA devices typically carried at a higher value than the P200 devices.

## Key Performance Indicators

As the business expands to cover a range of products and business models, the measures by which performance is managed will move towards overall growth in revenues, operating margins and cash generation together with the maintenance and expansion of the customer base. Measures relating to the pay-per-patient, **optomap** imaging business, whilst of great importance, will have less relevance to the overall group results in future periods.

	FY10	FY09	FY08
Revenue growth	9%	(4)%	16%
Operating margin (before exceptional items)	16%	9%	12%
Operating cashflow per share (diluted)	66.2c	53.8c	56.3c
Free cash flow	\$27.7m	\$18.0m	\$3.3m
Total number of customer sites at year end	3,912	3,797	3,983
Number of PPP customer sites at year end	3,630	3,625	3,825
%age of customers de-installed in the year	10%	12%	8%
% of sites above MMP	54%	53%	56%
Number of patients having <b>optomap</b> ® images taken	4.8m	4.7m	4.5m
Average price per <b>optomap</b> ®	\$18.5	\$19.7	\$20.5
Average no. of monthly <b>optomaps</b> ® per rental site	110	105	108
Average monthly <b>optomap</b> ® revenue per rental site	\$2,049	\$2,066	\$2,213

Revenue growth versus prior year is the total revenue for the year divided by the total revenue for the prior year. Operating profit before exceptional items is the gross profit less selling, distribution and administrative expenses, excluding exceptional costs. Operating cashflow per share is the cash flow from operations divided by the average number of shares in issue for the year as used in calculating the diluted earnings per share. Free cash flow is operating cashflow less cash used in investing in tangible and intangible assets and cash receipts from finance lease receivables.

The percentage of sites above MMP is the proportion of sites that record revenues above their fixed minimum monthly payments. However, since the MMP varies contract by contract, this measure is not a really useful guide to future revenues or performance. The percentage of customers de-installing is the number of sites de-installing divided by the average total customer base. The Company believes this to be a more useful metric than the previous contract renewal rate which was heavily skewed by the pattern of contract terminations and early renewals. The number of eye exams sold relates to actual eye exams undertaken by healthcare professionals under rental agreements.

## Trends Affecting the Company's Business

The Company's business relies on individuals, healthcare specialists and providers understanding the benefit of regular wellness screening and of the use of widefield screening in the management of patient with eye conditions. Whilst the acceptance of screening is increasing, given the fact that this is primarily a consumer out of pocket expense the Company is operating in a difficult economic environment and one where pricing pressures continue, where governments are facing ever-increasing healthcare costs and a number of competitive technologies seek to offer alternative screening at lower prices. The Company believes strongly in the benefits of its wide-view retinal screening product and through technology development, manufacturing improvements, clinical evidence and pricing programmes, believes it can continue to grow its business in its current markets, deliver products of sufficient medical benefit to allow additional reimbursement and also expand into new markets.

The Company's business is slightly seasonal, with the first quarter of our fiscal year typically delivering the lowest **optomap** usage of the year, reflecting the consumer-related influences over our business including major holidays and the fact that it is nearing the end of typical annual healthcare benefit packages.

## **Outlook**

In the last financial year, we have delivered a solid improvement in revenues, returned to a healthy profit and generated very strong cashflows. We have also made good operational progress, and have expanded our product portfolio through internal development and acquisition.

The launch of our next generation 200Dx and 200Tx products in the coming months and the marketing of our newly acquired products from Accutome and Opto Global, leaves us confident that we can continue to drive sales in the current financial year. As we provide our customers with greater choice, the increasing importance of device sales both outright and under finance leases will allow the business to grow more rapidly and reach a larger audience and new markets. Our business remains underpinned by a core of long-term contracts that secure repeat rental business and strong cash flow.

With good revenue visibility and an improving product portfolio being marketed by a focused salesforce, we are confident that Optos can continue to deliver growth and become a leading supplier of device solutions to the optometry and ophthalmology communities.

## CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2010

	Notes	2010 \$m	2009 Before exceptional items \$m	2009 Exceptional items \$m	2009 \$m
<b>Revenue</b>	3	<b>106.3</b>	97.2	-	97.2
Cost of sales		<b>(35.4)</b>	(38.2)	-	(38.2)
<b>Gross profit</b>		<b>70.9</b>	59.0	-	59.0
Selling and distribution costs	3	<b>(24.5)</b>	(22.5)	(0.1)	(22.6)
Administrative and other expenses	3	<b>(28.3)</b>	(29.6)	(6.2)	(35.8)
Share-based payments		<b>(0.6)</b>	1.6	-	1.6
<b>Operating profit</b>		<b>17.5</b>	8.5	(6.3)	2.2
Finance revenue	4	<b>0.2</b>	0.1	-	0.1
Finance costs	4	<b>(5.0)</b>	(6.1)	-	(6.1)
<b>Profit/(loss) from continuing operations before taxation</b>		<b>12.7</b>	2.5	(6.3)	(3.8)
Income tax credit/(charge)	5	<b>1.3</b>	(1.0)	0.5	(0.5)
<b>Net profit/(loss) for the year attributable to equity holders of the parent</b>		<b>14.0</b>	1.5	(5.8)	(4.3)
<b>Profit/(loss) before taxation per ordinary share</b>					
Basic	6	<b>18.1c</b>	3.6c		(5.5)c
Diluted	6	<b>18.1c</b>	3.6c		(5.5)c
<b>Profit/(loss) after taxation per ordinary share</b>					
Basic	6	<b>20.0c</b>	2.1c		(6.1)c
Diluted	6	<b>19.9c</b>	2.1c		(6.1)c

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2010

	2010 \$m	2009 \$m
Profit/(loss) for the year	<b>14.0</b>	(4.3)
Other comprehensive income:		
Exchange differences on foreign operations	<b>0.4</b>	0.3
Other comprehensive income for the year	<b>0.4</b>	0.3
<b>Total comprehensive income/(expense) for the year</b>	<b>14.4</b>	(4.0)

## CONSOLIDATED BALANCE SHEET

As at 30 September 2010

		2010	2009
	Notes	\$m	\$m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	63.4	79.4
Intangible assets	8	8.1	9.0
Finance lease receivable	9	5.3	-
Deferred tax asset		11.0	9.7
<b>Total non-current assets</b>		<b>87.8</b>	<b>98.1</b>
<b>Current assets</b>			
Inventories		5.8	8.4
Finance lease receivable	9	2.0	-
Trade and other receivables		14.1	9.5
Cash and cash equivalents		41.2	30.1
<b>Total current assets</b>		<b>63.1</b>	<b>48.0</b>
<b>Total assets</b>		<b>150.9</b>	<b>146.1</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued capital		2.5	2.5
Share premium		118.2	116.7
Retained deficit		(45.5)	(60.0)
Foreign exchange reserve		(0.2)	(0.6)
<b>Total equity</b>		<b>75.0</b>	<b>58.6</b>
<b>Non-current liabilities</b>			
Financial liabilities	10	36.4	44.3
Provisions		0.1	0.1
Government grants		0.3	0.6
<b>Total non-current liabilities</b>		<b>36.8</b>	<b>45.0</b>
<b>Current liabilities</b>			
Trade and other payables		12.2	9.6
Financial liabilities	10	25.9	32.0
Government grants		0.2	0.2
Income tax payable		0.8	0.7
<b>Total current liabilities</b>		<b>39.1</b>	<b>42.5</b>
<b>Total liabilities</b>		<b>75.9</b>	<b>87.5</b>
<b>Total equity and liabilities</b>		<b>150.9</b>	<b>146.1</b>

Approved by the Board of Directors on 23 November 2010 and signed on its behalf by:

**Christine Soden**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 September 2010

	Share capital \$m	Share premium \$m	Retained earnings \$m	Foreign exchange \$m	Total \$m
<b>At 1 October 2008</b>	<b>2.5</b>	<b>116.7</b>	<b>(54.4)</b>	<b>(0.9)</b>	<b>63.9</b>
Exchange differences on foreign operations	-	-	-	0.3	0.3
Loss for the year	-	-	(4.3)	-	(4.3)
<b>Total comprehensive (expense)/income for year</b>	<b>-</b>	<b>-</b>	<b>(4.3)</b>	<b>0.3</b>	<b>(4.0)</b>
Share-based payments	-	-	(1.3)	-	(1.3)
<b>At 30 September 2009</b>	<b>2.5</b>	<b>116.7</b>	<b>(60.0)</b>	<b>(0.6)</b>	<b>58.6</b>
Exchange differences on foreign operations	-	-	-	0.4	0.4
Profit for the year	-	-	14.0	-	14.0
<b>Total comprehensive income for year</b>	<b>-</b>	<b>-</b>	<b>14.0</b>	<b>0.4</b>	<b>14.4</b>
Issue of ordinary share capital	-	1.5	-	-	1.5
Share-based payments	-	-	0.5	-	0.5
<b>At 30 September 2010</b>	<b>2.5</b>	<b>118.2</b>	<b>(45.5)</b>	<b>(0.2)</b>	<b>75.0</b>

### Share premium

Share premium comprises the cumulative difference between the net proceeds and nominal value of the Company's issued equity share capital.

### Foreign exchange reserve

This reserve includes all cumulative differences on the translation of the Group's net investment in foreign operations. Optos elected to deem the cumulative differences on the retranslation into US dollars of the Group's net investment in foreign operations to be \$nil as at 1 October 2004. As a result, in the event of any future disposal of a foreign operation, any gain or loss on disposal will include cumulative translation differences arising only on or after 1 October 2004.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2010

	2010 \$m	2009 \$m
<b>Operating activities</b>		
Profit/(loss) for the year	14.0	(4.3)
Adjustments to reconcile profit/(loss) for the year to net cash inflow from operating activities:		
Income tax (credit)/charge	(1.3)	0.5
Finance costs net of finance revenue	4.8	6.0
Depreciation, amortisation and impairment of non-current assets	31.6	37.1
Inventory write down	-	1.0
Loss on disposal of property, plant, equipment and intangible assets	0.3	0.1
Medical devices disposed of in relation to outright device sales	1.6	-
Medical devices disposed of in relation to device sales under finance leases	1.6	-
Share-based payments	0.5	(1.3)
Revenue recognised from device sales under finance leases	(7.7)	-
(Increase)/decrease in trade and other receivables	(4.6)	5.8
Amortisation of government grants	(0.3)	(0.1)
Decrease/(increase) in inventories	2.6	(1.2)
Increase/(decrease) in trade and other payables	3.3	(5.4)
Decrease in provisions	-	(0.4)
Cash flow from operating activities	46.4	37.8
Tax on continuing operations	-	(0.4)
<b>Net cash flow from operating activities</b>	<b>46.4</b>	<b>37.4</b>
<b>Cash flows used in investing activities</b>		
Interest received	0.2	0.1
Purchases of property, plant and equipment	(17.5)	(18.5)
Expenditure on intangible assets	(1.6)	(0.9)
Cash receipts from finance lease receivables	0.4	-
<b>Net cash flows used in investing activities</b>	<b>(18.5)</b>	<b>(19.3)</b>
<b>Cash flows from financing activities</b>		
Proceeds from finance leases	24.2	38.7
Repayment of finance leases	(37.4)	(48.0)
Proceeds from share issues	1.5	-
Interest paid	(5.0)	(6.1)
<b>Net cash outflow from financing activities</b>	<b>(16.7)</b>	<b>(15.4)</b>
Net increase in cash and cash equivalents	11.2	2.7
Effect of foreign exchange on cash and cash equivalents	(0.1)	(0.1)
Cash and cash equivalents at beginning of year	30.1	27.5
<b>Cash and cash equivalents at end of year</b>	<b>41.2</b>	<b>30.1</b>

## 1 BASIS OF PREPARATION

### a. Basis of preparation

The financial statements have been prepared in accordance with the Group's accounting policies which are based on International Financial Reporting Standards ("IFRS") and IFRIC interpretations as endorsed by the European Union ("EU") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest one hundred thousand (\$0.0m) except when otherwise indicated.

The financial information for the years ended 30 September 2010 and 2009 set out above does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006 ("the Act"). Statutory accounts for the year ended 30 September 2009 have been delivered to the Registrar of Companies, and the accounts for the year ended 30 September 2010 will be delivered to the Registrar of Companies following the Annual General Meeting. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

The Annual Report and Accounts for the year ended 30 September 2010 will be posted to shareholders on 24 January 2011. The results for 2010 were approved by the Board of directors on 23 November and are audited. The Annual General Meeting will take place on 23 February 2011.

Interim and preliminary announcements notified to the London Stock Exchange are available on the internet at [www.optos.com](http://www.optos.com).

### b. Going concern

The Group's business activities and principal risks and uncertainties are set out in Note 12.

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 the Annual Report and Accounts.

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 cashflows guaranteed under its rental customer agreements and the pattern of future debt repayments associated with current finance obligations.

### c. 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 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.

### d. Leases

#### ***Company as a lessor***

The Company considers the arrangements between Optos and its customers on a case by case basis, taking into account the terms of the contract, the fair value and the estimated residual life of the underlying device. The Company introduced a variety of new pricing models and reassessed the fair value of certain of its devices during the period from April to September 2010. This reassessment was in light of market conditions and its own product development plans and resulted in some contracts being classified as finance leases.

#### ***Finance leases***

The Company treats a number of the arrangements between Optos and the customer as finance leases as defined in IAS 17 because substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the customer. The Company makes this assessment at the inception of the lease or at the date of contract extension, on the basis of one or more of the following factors.

- The lease transfers ownership of the equipment to the customer by the end of the lease term
- The customer has a right to buy the equipment either during the term of the lease or at the end of the lease at an advantageous price, and it is reasonable certain at the inception of the lease that this option will be exercised
- The lease term covers the major part of the estimated useful life of the asset
- The present value of the minimum lease payments amounts to substantially all of the fair value of the asset

An amount equal to the fair value of the asset, or if lower, the present value of the minimum lease payments is recognised as revenue in the income statement and as an asset in the statement of financial position. The fair value of service and maintenance is released to the income statement on a straight line basis over the lease term. Finance income is recognised on the basis of a constant monthly rate of return on the net investment in the finance lease which is equivalent to the incremental borrowing rate charged to the Company. The transaction is treated as a disposal from property, plant and equipment and the net book value recorded as a cost in the income statement in accordance with the policy for outright sales.

#### *Operating leases*

The Company treats the majority of the arrangements between Optos and the customer as operating leases as defined in IAS 17 because substantially all of the risks and rewards incidental to ownership of the asset have not been transferred. The Company makes this assessment based on the following factors;

- Ownership of the asset does not transfer to the customer at the end of the lease term and there is no advantageous acquisition option for the customer at the end of the lease.
- The estimated useful life of the asset is considered to be five years which is significantly in excess of the lease term;
- At the inception of the lease the present value of the minimum lease payments is significantly less than the fair value of the asset.

The majority of the Company's contracts commit the customer to pay a fixed monthly sum (the MMP) plus a variable monthly sum should the usage of the device exceed the minimum agreed level (variable rental). These fixed rental payments from operating leases are recognised monthly in the income statement on a straight line basis over the lease term. Variable rentals are recognised monthly in line with actual usage of the device.

#### **Company as a lessee**

##### *Finance leases*

Assets held by the Group under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the item or, if lower, at the present value of the minimum future lease payments.

Upon placement of medical devices at a customer site and where the customer enters into a fixed term contract to pay the Group fixed and variable amounts of revenue, the Group selectively enters into a financing agreement with third-party providers of debt finance. The debt-finance provider advances the Group funds in return for taking the right to receive the fixed revenue streams and legal title to the device over the term of the finance arrangement.

In such cases there is a transfer of legal title of the relevant device to the debt provider with legal title being transferred back to the Company at the end of the term of the debt. As the significant risks and rewards of ownership are retained by the Group, the finance received from the debt-providers is recorded as fixed-rate obligations which are repayable by instalments and are secured over the related medical device. In such cases the medical devices are recorded as property, plant and equipment and the debt finance as finance leases payable.

Lease payments payable under the medical device finance arrangements are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability with the finance charges being charged directly against income over the lease term.

Leased assets are depreciated over the estimated useful life of the asset or where there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, over the lease term if shorter.

#### *Operating leases*

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are recognised in the income statement on a straight line basis over the lease term.

## **2 SEGMENTAL ANALYSIS**

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' current technology is a scanning laser ophthalmoscope device which is installed at healthcare professionals' sites. These sites are fully supported by the Group's employees. Cash flow is generated principally on a rental basis.

The business is managed on an integrated basis, with functions managed globally and decisions reached through cross-functional committees. In particular, research and development is actively targeted at new products and 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.

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.

An analysis by operating segment is given below for the year ended 30 September 2010:

	North America 2010 \$m	Rest of World 2010 \$m	Eliminations 2010 \$m	Total 2010 \$m
<b>Revenue</b>				
Operating lease revenue from rental of devices	78.9	10.1	-	89.0
Device sales under finance leases	7.1	0.6	-	7.7
Device sales - outright	5.9	2.2	-	8.1
Service and warranty contracts	1.5	-	-	1.5
Inter-segment sales	-	4.0	(4.0)	-
<b>Segment revenue</b>	<b>93.4</b>	<b>16.9</b>	<b>(4.0)</b>	<b>106.3</b>
Operating lease costs	(27.5)	(4.7)	-	(32.2)
Cost of goods of device sales under finance leases	(1.1)	(0.5)	-	(1.6)
Cost of goods of outright device sales	(1.3)	(0.3)	-	(1.6)
Inter-segment costs	(23.5)	23.5	-	-
<b>Segment gross profit</b>	<b>40.0</b>	<b>34.9</b>	<b>(4.0)</b>	<b>70.9</b>
Selling and distribution costs				(24.5)
Administrative and other expenses				(28.3)
Share-based payments				(0.6)
Operating profit				17.5
Net finance costs				(4.8)
<b>Profit from continuing operations before taxation</b>				<b>12.7</b>
Taxation				1.3
<b>Net profit for the year</b>				<b>14.0</b>
<b>Assets and liabilities</b>				
Segment assets	72.9	77.9	(52.1)	98.7
Unallocated assets				52.2
<b>Total assets</b>				<b>150.9</b>
Segment liabilities	45.5	19.4	(52.1)	12.8
Unallocated liabilities				63.1
<b>Total liabilities</b>				<b>75.9</b>
<b>Other segment information</b>				
Capital expenditure:				
Property, plant and equipment	8.3	9.2	-	17.5
Intangible fixed assets	-	1.6	-	1.6
Depreciation	23.6	5.5	-	29.1
Amortisation	-	2.5	-	2.5
Loss on disposal of non-current assets	-	0.3	-	0.3

Unallocated assets primarily comprise cash and short-term deposits and deferred tax assets.  
Unallocated net liabilities comprise financial liabilities and taxation.

Revenue from external customers includes \$2.5m attributable to the UK. Non-current assets, excluding deferred tax assets, include \$15.1m attributable to the UK.

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

	North America 2009 \$m	Rest of World 2009 \$m	Eliminations 2009 \$m	Total 2009 \$m
<b>Revenue</b>				
Operating lease revenue from rental of devices	85.0	8.5	-	93.5
Device sales - outright	2.1	0.4	-	2.5
Service and warranty contracts	1.2	-	-	1.2
Inter-segment sales	-	13.9	(13.9)	-
<b>Segment revenue</b>	<b>88.3</b>	<b>22.8</b>	<b>(13.9)</b>	<b>97.2</b>
Operating lease costs	(33.4)	(4.1)	-	(37.5)
Cost of goods of outright device sales	(0.6)	(0.1)	-	(0.7)
Inter-segment costs	(18.3)	18.3	-	-
<b>Segment gross profit</b>	<b>36.0</b>	<b>36.9</b>	<b>(13.9)</b>	<b>59.0</b>
Selling and distribution costs				(22.5)
Administrative and other expenses				(29.6)
Exceptional items				(6.3)
Share-based payments				1.6
Operating profit				2.2
Net finance costs				(6.0)
<b>Loss from continuing operations before taxation</b>				<b>(3.8)</b>
Taxation				(0.5)
<b>Net loss for the year</b>				<b>(4.3)</b>
<b>Assets and liabilities</b>				
Segment assets	76.9	84.4	(55.0)	106.3
Unallocated assets				39.8
<b>Total assets</b>				<b>146.1</b>
Segment liabilities	49.2	16.3	(55.0)	10.5
Unallocated liabilities				77.0
<b>Total liabilities</b>				<b>87.5</b>
<b>Other segment information</b>				
Capital expenditure:				
Property, plant and equipment	10.7	7.8	-	18.5
Intangible fixed assets	-	0.9	-	0.9
Depreciation	27.4	4.6	-	32.0
Amortisation	-	1.6	-	1.6
Loss on disposal of non-current assets	-	0.1	-	0.1
Impairment loss	-	3.5	-	3.5

Unallocated assets primarily comprise cash and short-term deposits and deferred tax assets.  
Unallocated net liabilities comprise financial liabilities and taxation.

Revenue from external customers includes \$2.1m attributable to the UK. Non-current assets, excluding deferred tax assets, include \$17.8m attributable to the UK.

### 3 REVENUE AND EXPENSES

	2010 \$m	2009 \$m
<b>Revenue</b>		
Operating lease revenue from rental of devices	89.0	93.5
Device sales under finance leases	7.7	-
Device sales - outright	8.1	2.5
Service and warranty contracts	1.5	1.2
Revenue	<b>106.3</b>	97.2
Finance revenue	<b>0.2</b>	0.1
<b>Total revenue</b>	<b>106.5</b>	97.3

No revenue was derived from exchanges of goods or services.

Rental revenue classified as operating leases includes \$89.0m (2009: \$93.5m) from rental contracts with customers where substantially all the risks and rewards of ownership remain with Optos, being \$69.4m (2009: \$73.8m) from fixed monthly minimum payments to which customers have contracted plus \$19.6m (2009: \$19.7m) from the variable per optomap revenue for tests performed over the monthly minimum levels.

Revenue from the sales of devices classified as finance leases is the lower of an amount equal to the fair value of the asset or the present value of the minimum leased payments from rental contracts where the rental agreement has been assessed as a finance lease.

Service and warranty contracts relates to revenues from contracts to maintain and service the Company's devices.

The Company treats certain of the contractual arrangements with the customers as operating lease arrangements. Future minimum rentals receivable under non-cancellable operating leases with customers are as follows:

	2010 \$m	2009 \$m
Not later than one year	65.4	64.7
After one year but not more than five years	102.6	91.4
After five years	1.8	0.6
	<b>169.8</b>	156.7

Administrative and other expenses comprise general and administrative expenses.

	2010 \$m	2009 \$m
The profit/(loss) from continuing operations before taxation is stated after charging/(crediting):		
Depreciation charge for the period	29.1	32.0
R&D expenditure <sup>1</sup>	5.7	4.3
Amortisation of software <sup>2</sup>	0.4	0.3
Operating leases	1.0	0.8
Foreign exchange differences	(0.5)	(0.1)

<sup>1</sup> Includes \$2.1m (2009: \$1.3m) in respect of the amortisation of intangible assets which is recognised in administrative and other expenses through the income statement. In addition, \$1.3m (2009: \$0.5m) of R&D expenditure was incurred which has not been charged in arriving at the pre-tax profit for the period as it has been capitalised as an intangible asset. Further information is included in Note 8.

<sup>2</sup> Amortisation of software is recognised in administrative and other expenses through the income statement.

### **Services provided by the Group's auditor and network firms**

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2010 \$m	2009 \$m
Fees payable to the Company's auditor for the audit of the Company's annual accounts (including estimated expenses)	0.2	0.1
All other services	0.1	0.1
	0.3	0.2

### **4 FINANCING**

	2010 \$m	2009 \$m
<b>Finance costs</b>		
Finance lease interest payable	5.0	6.1
	5.0	6.1
<b>Finance revenue</b>		
Finance lease interest receivable	0.1	-
Bank interest receivable	0.1	0.1
	0.2	0.1

### **5 TAXATION**

<b>Analysis of tax charge in the year</b>	2010 \$m	2009 \$m
Tax on profit/(loss) on ordinary activities:		
Corporation tax at 28% (2009: 28%)		
Current year tax charge	-	0.1
Adjustment in respect of prior periods	(0.2)	-
Overseas taxes – prior year	(0.1)	0.8
Overseas taxes – current year	0.3	0.1
Current year tax charge	-	1.0
Deferred tax		
Origination and reversal of timing differences	(1.3)	(0.5)
Total deferred tax credit	(1.3)	(0.5)
<b>Total income tax (credit)/charge</b>	<b>(1.3)</b>	<b>0.5</b>

The credit to tax for the year was \$1.3m (2009: charge of \$0.5m), comprising a current tax charge of \$nil (2009: \$1.0m) and a deferred tax credit of \$1.3m (2009: \$0.5m). The current tax charge relates primarily to overseas tax liabilities offset by adjustments in respect of prior periods.

### **6 PROFIT/(LOSS) ON ORDINARY SHARE**

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

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

	2010	2009
Weighted average number of ordinary shares in issue	<b>69,979,015</b>	69,528,126
Effect of dilution: share options	<b>90,218</b>	-
<b>Adjusted weighted average number of ordinary shares for diluted earnings per share</b>	<b>70,069,233</b>	69,528,126
Profit before exceptional items and taxation (\$m)	<b>12.7</b>	2.5
Basic profit before exceptional items and taxation per share (cents)	<b>18.1c</b>	3.6c
Diluted profit before exceptional items and taxation per share (cents)	<b>18.1c</b>	3.6c
Profit before exceptional items after taxation (\$m)	<b>14.0</b>	1.5
Basic profit before exceptional items after taxation per share (cents)	<b>20.0c</b>	2.1c
Diluted profit before exceptional items after taxation per share (cents)	<b>19.9c</b>	2.1c
Profit/(loss) before taxation (\$m)	<b>12.7</b>	(3.8)
Basic profit/(loss) before taxation per share (cents)	<b>18.1c</b>	(5.5)c
Diluted profit/(loss) before taxation per share (cents)	<b>18.1c</b>	(5.5)c
Profit/(loss) after taxation (\$m)	<b>14.0</b>	(4.3)
Basic profit/(loss) after taxation per share (cents)	<b>20.0c</b>	(6.1)c
Diluted profit/(loss) after taxation per share (cents)	<b>19.9c</b>	(6.1)c

## 7 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$m	Medical devices \$m	Plant and equipment \$m	Total \$m
<b>Cost</b>				
At 1 October 2009	1.5	207.4	8.2	217.1
Additions	0.1	16.0	1.4	17.5
Disposals	-	(12.6)	(0.7)	(13.3)
Exchange adjustment	-	(1.0)	-	(1.0)
<b>At 30 September 2010</b>	<b>1.6</b>	<b>209.8</b>	<b>8.9</b>	<b>220.3</b>
<b>Depreciation</b>				
At 1 October 2009	0.9	131.0	5.8	137.7
Charge for year	0.1	27.7	1.3	29.1
Disposals	-	(9.4)	(0.4)	(9.8)
Exchange adjustment	-	(0.1)	-	(0.1)
<b>At 30 September 2010</b>	<b>1.0</b>	<b>149.2</b>	<b>6.7</b>	<b>156.9</b>
<b>Net book value at 30 September 2010</b>	<b>0.6</b>	<b>60.6</b>	<b>2.2</b>	<b>63.4</b>
<b>Cost</b>				
At 1 October 2008	1.4	194.0	7.7	203.1
Additions	0.1	17.6	0.8	18.5
Disposals	-	(3.7)	(0.3)	(4.0)
Exchange adjustment	-	(0.5)	-	(0.5)
<b>At 30 September 2009</b>	<b>1.5</b>	<b>207.4</b>	<b>8.2</b>	<b>217.1</b>
<b>Depreciation</b>				
At 1 October 2008	0.7	104.5	4.7	109.9
Charge for year	0.2	30.4	1.4	32.0
Disposals	-	(3.7)	(0.3)	(4.0)
Exchange adjustment	-	(0.2)	-	(0.2)
<b>At 30 September 2009</b>	<b>0.9</b>	<b>131.0</b>	<b>5.8</b>	<b>137.7</b>
<b>Net book value at 30 September 2009</b>	<b>0.6</b>	<b>76.4</b>	<b>2.4</b>	<b>79.4</b>

Medical devices refer to retinal examination equipment located at customer sites under operating leases and significant parts and major spares. Medical devices are depreciated upon activation at the relevant customer site. In certain circumstances medical devices are returned, upgraded and relocated at a new customer site. Depreciation is then recalculated to write off the remaining net book value over the next five years from relocation.

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 for the year was an increase to the depreciation charge of \$0.4m.

The carrying value of plant and equipment and medical devices held subject to finance leases at 30 September 2010 was \$23.9m (2009: \$39.6m). Legal title to the leased assets transfers to the debt provider as security for the term of the agreement.

## 8 INTANGIBLE ASSETS

	Development costs \$m	Software costs \$m	Intellectual property costs \$m	Total \$m
<b>Cost</b>				
At 1 October 2009	13.4	2.9	0.3	16.6
Additions – internal development	1.3	-	-	1.3
Additions – purchased externally	-	0.3	-	0.3
Disposals	-	-	(0.3)	(0.3)
<b>At 30 September 2010</b>	<b>14.7</b>	<b>3.2</b>	<b>-</b>	<b>17.9</b>
<b>Accumulated amortisation</b>				
At 1 October 2009	5.1	2.2	0.3	7.6
Amortisation in year	2.1	0.4	-	2.5
Disposals	-	-	(0.3)	(0.3)
<b>At 30 September 2010</b>	<b>7.2</b>	<b>2.6</b>	<b>-</b>	<b>9.8</b>
<b>Net carrying amount</b>				
<b>At 30 September 2010</b>	<b>7.5</b>	<b>0.6</b>	<b>-</b>	<b>8.1</b>
<b>Cost</b>				
At 1 October 2008	12.9	2.6	0.3	15.8
Additions – internal development	0.5	-	-	0.5
Additions – purchased externally	-	0.4	-	0.4
Disposals	-	(0.1)	-	(0.1)
<b>At 30 September 2009</b>	<b>13.4</b>	<b>2.9</b>	<b>0.3</b>	<b>16.6</b>
<b>Accumulated amortisation</b>				
At 1 October 2008	0.6	1.9	-	2.5
Amortisation in year	1.3	0.3	-	1.6
Impairment loss	3.2	-	0.3	3.5
<b>At 30 September 2009</b>	<b>5.1</b>	<b>2.2</b>	<b>0.3</b>	<b>7.6</b>
<b>Net carrying amount</b>				
<b>At 30 September 2009</b>	<b>8.3</b>	<b>0.7</b>	<b>-</b>	<b>9.0</b>

Development costs are capitalised as intangible assets to the extent the Board considers that individual projects meet the recognition criteria under the relevant standard. As at 30 September 2010 \$5.4m (2009: \$7.2m) of these costs related to the design of the technology platform underlying the Group's P200C, P200MA and 200Tx devices. Amortisation of such costs commenced in 2007 and will be amortised over the benefits anticipated to accrue in the first five years of operations (included within administrative and other expenses) and will be fully amortised by 30 September 2012. During the period the carrying value of development costs were reviewed for impairment and no costs were written off (2009: \$3.2m).

The costs of intellectual property acquired in 2008 related to the purchase of technical know-how and intellectual property rights for the manufacture of a component that the Company expected to produce in Asia. During 2009 the costs were fully impaired and they have subsequently been disposed of in the year to 30 September 2010.



## **11 POST BALANCE SHEET EVENTS**

On 12 November 2010 Optos plc announced the proposed acquisition of the entire issued share capital of Opto Global Holdings Pty Ltd ("Opto Global") for up to \$14.75m. The offer made is a conditional cash and share offer to the shareholders of Opto Global to acquire the entire issued share capital of the Company (the "Offer"). In the event that the shareholders of Opto Global do not accept the Offer, Optos has agreed with Opto Global to acquire the business and substantially all of the assets of Opto Global including the shares of its subsidiary undertakings. The total consideration payable to shareholders of Opto Global under the Offer is up to \$14.75 million, comprising initial consideration payable on completion of the Offer of \$10.75 million in cash and \$1 million to be satisfied by the issue of new ordinary shares of Optos plc and contingent cash consideration of up to \$3 million based on the achievement of certain revenue-related milestones over the twelve months period commencing three months after completion of the Offer.

## **12 PRINCIPAL RISKS AND UNCERTAINTIES**

There are a number of potential risks and uncertainties which have been identified within the business which could have a material impact on the Company's long-term performance. These are not all of the risks which the Directors have identified but those that the Directors currently consider likely to be material. The mitigating activities, where available, are described below:

### **The Company's operating results and financing capacity could be adversely affected by economic cycles.**

Any significant downturn in economic markets would be likely to impact adversely on disposable incomes, which may in turn result in reduced public demand for the Company's products and thereby materially and adversely affect the Company's business and financial position. A reduction in footfall in optometrists' offices or closure of those offices could adversely impact the Company's ability to earn revenues from optomap examinations above the MMP and might cause a reduction in the renewal rate of contracts, impacting revenues, profits and cash generation. The inability to secure further debt could adversely impact on expansion plans.

#### **Mitigating Activities**

The Company benefits from good visibility of secured forward revenues through its contracts that typically have a term of around three years although there can be no guarantee that customers will not default under those contracts. The Company's reliance on debt to finance its business has been substantially reduced through a clear focus on increasing revenues, reducing costs and increase in operating efficiencies.

### **The Company depends heavily on the success of its technology platform and its continued development, particularly the development of a desk-top sized device for each of its customer segments.**

The Company is heavily reliant on its P200, P200C and P200MA medical devices, which produce the Company's retinal exam products. These products, together with related services, accounted for all of the Company's revenues for the year ended 30 September 2010. If any third party produces a more advanced device with improved functionality to these devices, or a similar device with significantly lower build costs, this could have a material adverse effect on the Company's business, financial condition and results of operations.

#### **Mitigating Activities**

The Company seeks to address this risk through investing significant resources in demonstrating the clinical efficacy and superiority of its devices and developing the quality and functionality of its products in order to seek to address competitive threats. For example the 200Tx and 200Dx devices are about to be launched. The Daytona project to build a desk-top sized, "plug and play", high-quality device is well advanced but there can be no guarantee this will be completed by the end of 2011 as planned. The Company's typical contracts with a three year term help raise the hurdle for competitor products.

In order to further diversify risk, the Company has announced it has acquired rights to distribute additional products (three hand-held devices from Accutome) and, should the proposed acquisition of Opto Global complete, will further diversify its product range.

### **The growth of the Company's business, particularly as it enters the ophthalmology sector, is dependent on it manufacturing its devices in a cost-effective and repeatable way.**

The company's devices are complex and expensive to build and rely on a number of specialist components and parts.

#### **Mitigating Activities**

In order to improve security of supply, the Company is developing the ability to manufacture, repair and refurbish its devices at both its manufacturing sites and will hold supplies of parts at dual locations. Where a product is single-sourced, the Company seeks to hold sufficient inventories to manage expected demand. The Company's development teams run projects to reduce the cost of building devices and in developing project Daytona as discussed above, the team is seeking to place more reliance on readily available component and technologies rather than the current reliance on specialist manufacture and supply.

### **The Company is subject to pricing pressures in common with other consumer-based businesses and relies in part on reimbursement agreements with insurers and government health authorities.**

There can be no guarantee that the Company can deliver continued increases in revenue, nor can there be any certainty that the **optomap®** image or any other procedure will continue to qualify under health reimbursement schemes or that the reimbursement rates will not decrease. The Company may also be subject to healthcare-related taxes imposed by government agencies such as a medical-devices tax that is to be introduced by the US Government. The near-term success of the Company's business depends on consumers understanding the benefit of regular **optomap®** examinations at the price offered by the Company and healthcare professionals.

#### Mitigating Activities

The Company seeks to drive adoption and awareness of its product through strong educational programmes and developing compelling evidence from clinical studies.

#### **The Company operates in a highly regulated industry.**

The Company's medical devices are subject to strict US Federal Food and Drug Administration ("FDA") regulations and the requirements of similar foreign regulatory bodies. Although the Company's devices are currently FDA cleared to market, if the Company or its third party manufacturers fail to satisfy regulatory requirements or regulations change, this could result in the imposition of sanctions on the Company or cause the Company to be unable to sell its product in certain markets or face adverse publicity.

#### Mitigating Activities

The Company operates to relevant ISO guidelines on quality management and monitors and anticipates developments in regulatory thinking through internal and external experts.

#### **Intellectual property suits that are brought against the Company may significantly harm the business, as could significant litigation.**

Technology-based companies are frequently subject to litigation with respect to patent and other intellectual property rights. Any litigation to determine the validity of third-party infringement claims or defend the Company's Intellectual Property could at a minimum be costly. The Company believes the core patent protection around its product is strong and is not aware of any significant actual or pending suits. The Company's business exposes it to the risk of certain litigation, for example, a patient suffering harm during the image process or the Company's retinal image system not identifying an underlying medical problem.

#### Mitigating Activities

The Company does not offer diagnostic or treatment services and its customers are all qualified eyecare clinicians who are fully trained in the use of the device and interpretation of the optomap product. The Company maintains product liability insurance although there can be no certainty the insurance coverage would be sufficient to meet the cost of any claims. The Company monitors patents in the space in which it operates for possible infringement by others or of its own patents.

#### **The Company's business is international and it operates in several countries and currencies and its results are impacted by changes in currency exchange rates.**

Changes in exchange rates could increase the cost of acquiring products and resources and thus impact on the company's ability to provide products and services at competitive prices and adversely impact revenues, profits and cashflow.

#### Mitigating Activities

Optos reports its results in US\$, the currency in which the majority of its revenues and costs arise. The Group monitors its non-US\$ foreign currency exposure and, when deemed necessary by the Board, seeks to minimise its transaction exposure by using forward foreign currency contracts to eliminate exposures on any committed significant transactions. The board determined that it was not necessary to use forward foreign currency contracts in 2010. Wherever possible the majority of cash balances are maintained in US\$ to mitigate the impact of currency fluctuations.

**RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT**

The Directors together confirm that to the best of their knowledge:

The financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

The Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Roy Davis  
Christine Soden

Chief Executive Officer  
Chief Financial Officer