

Wednesday 9 December 2009

PHOTO-ME INTERNATIONAL PLC - INTERIM ANNOUNCEMENT

£28.7m net cash inflow, adjusted PBT up 72%, dividend resumed

Photo-Me (PHTM.L), the instant service equipment group, announces its results for the half year to 31 October 2009. As indicated in the AGM Statement of 29 October and the positive trading update of 25 November, progress has been made in the period.

KEY POINTS – FINANCIAL

- Net cash of £2.6m at 31 October 2009 compares with net debt on continuing activities of £26.1m at 30 April 2009 – a £28.7m improvement
- EBITDA* £27.2m – 23.1% of revenue, a high percentage (2008: £24.0m, 22.2%)
- Revenue* up 9% at £117.7m (2008: £108.1m) or, at 2008 exchange rates, down 2% at £106.3m
- Pre-tax profit* up 72% to £11.2m (2008: £6.5m) or, at 2008 exchange rates, up 52% at £9.9m. 2008's pre-tax profit included £2.5m of exchange gain on inter-company balances which was not repeated in the current period
- Reported pre-tax profit on continuing operations increased by 208% to £9.0m (2008: £2.9m)
- Dividend payment resumed with an interim dividend of 0.25p per share

* on continuing operations, pre-exceptionals

Commenting on the result, Hugo Swire, Chairman, stated “The half year to 31 October 2009 was characterised principally by the £28.7m net cash inflow which resulted in net cash balances at the period end. Additionally, profit increased substantially, in market conditions which remained extremely difficult.”

With regard to the outlook for the future, Mr Swire added “The second half is expected to benefit from recent improvements in the day-to-day management of the Group and from initial volume sales of the Photobook Maker. However, the second half historically tends to be much the weaker of the two, in particular for Operations, and market conditions remain extremely difficult. Accordingly, the Board is hopeful, rather than confident, that the second half will be profitable.

Future anticipated sales of the Photobook Maker, together with the strategic focus involving the deployment of low cost innovative devices in the main territories, are expected to regain market share and improve takings in the coming years.”

Legal Disclaimer:

Certain statements made in this announcement are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from these forward looking statements.

Presentation:

A presentation to investors and brokers' analysts will be given from 09.00 to 10.00 today at the offices of Bankside Consultants, 1 Frederick's Place, London EC2R 8AE.

Enquiries:

Photo-Me

Hugo Swire (Chairman)

Françoise Coutaz-Replan (GFD)

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INTERIM MANAGEMENT REPORT

The half year to 31 October 2009 was characterised principally by the £28.7m net cash inflow which resulted in net cash balances at the period end. Additionally, profit increased substantially, in market conditions which remained extremely difficult.

FINANCIAL REVIEW

The following table summarises the results, excluding exceptional items and discontinued activities, analysed between the two Divisions, Operations and Sales & Servicing:

Half year to 31 October	Revenue			Operating profit		
	2009	2009†	2008	2009	2009†	2008
	£m	£m	£m	£m	£m	£m
Operations	93.9	84.5	85.7	11.6	10.5	11.1
Sales & Servicing	23.8	21.8	22.4	2.2	2.0	(2.9)
Group overheads:						
Underlying	-	-	-	(1.5)	(1.5)	(2.2)
	117.7	106.3	108.1	12.3	11.0	6.0
Foreign exchange gain on inter- company balances	-	-	-	-	-	2.5
	117.7	106.3	108.1	12.3	11.0	8.5
† Trading results of overseas subsidiaries converted at 2008 exchange rates						

Foreign exchange movements (notably the appreciation against Sterling of 11% in the Euro and 31% in the Japanese Yen) increased both revenue and operating profit in the period. Revenue increased by 9% (reduced by 2% in constant currency). Operating profit increased by 45% (29% in constant currency).

Also excluding exceptional items, pre-tax profit increased by 72% to £11.2m (2008: £6.5m) and basic earnings per share (continuing operations) were up 49% at 1.77p (2008: 1.19p).

2008, however, benefited much more than 2009 from foreign exchange gains on inter-company balances. Without these, at constant currency operating profit would have been £11.0m (2008: £6.0m), up 85%, and pre-tax profit would have been £9.9m (2008: £4.0m), up 148%.

Exceptional charges of £2.2m (2008: £3.6m) in the period relate to restructuring at KIS. Including exceptional charges, operating profit was up 106% at £10.1m (2008: £4.9m), pre-tax profit increased by 208% to £9.0m (2008: £2.9m), whilst earnings per share (continuing operations) climbed 156% to 1.38p (2008: 0.54p). Pre-tax profit benefited from a 44% reduction in net finance costs to £1.1m (2008: £2.0m), but earnings per share suffered from an abnormally high effective tax rate of 43.9% (2008: 30.3%) as a result of depreciation exceeding capital allowances.

Shareholders' equity at 31 October 2009 totalled £77.5m (30 April 2009: £72.9m), equivalent to 21.5p (30 April 2009: 20.3p) per share.

In the annual results announcement of 2 July 2009, the Board predicted a further material reduction in indebtedness in the current year. With net cash at 31 October 2009 of £2.6m, a £28.7m improvement on the £26.1m net debt on continuing activities at 30 April 2009, the Board's confidence has not been misplaced.

The Board believes that EBITDA, with its correlation to cash generation, is a key performance measure for Photo-Me. In the period, pre-exceptional EBITDA from continuing operations was £27.2m, representing 23.1% of revenue – a high percentage.

BUSINESS REVIEW

Geographical overview of revenue and profit (by origin)

Continental Europe contributed 58% (2008: 57%) of Group revenue, including the great majority of Sales & Servicing revenue, as well as 81% (2008: 49%) of Group operating profit before exceptional items. Substantially all Group overheads arise in the UK & Republic of Ireland. Asia, the smallest of the three areas, alone decreased its contribution to underlying profit.

Operations

Operations comprises the operation of unattended instant service equipment, in particular photobooths, digital media kiosks, and amusement and business service equipment.

Half year to 31 October	Revenue			Operating profit		
	2009	2009†	2008	2009	2009†	2008
	£m	£m	£m	£m	£m	£m
Operations	93.9	84.5	85.7	11.6	10.5	11.1
† Trading results of overseas subsidiaries converted at 2008 exchange rates Continuing operations only and before exceptional items						

Operations contributed 80% (2008: 79%) of Group revenue and 84% (2008: 100%) of Group operating profit before overheads.

At the half year end, the total number of Operations sites worldwide was 42,900, which compares with 44,100 a year ago and 42,600 six months ago. This extensive network of vending sites, with related site-owner contracts and relationships, supplemented by an established field service and cash collection infrastructure, represents Photo-Me's greatest strength.

Photo-Me's Operations business is global, trading in 15 industrialised countries. However, 86% of sites are located in three territories – France, the UK & Ireland and Japan – which account respectively for 38%, 28% and 19% (a total of 85%) of Operations revenue.

Photobooths

Photobooths are an efficient and competitively-priced provider of ID photographs and represent a mature cash generative business.

At the half year end, the total number of photobooths sited was down 3% at 20,900, which compares with 21,500 a year ago and 21,050 six months ago. Of these, Continental Europe

accounted for 44%, Asia 30% and the UK & Ireland 26%. Photobooths therefore again comprised 49% (2008: 49%) of all Operations equipment units.

Photobooth takings increased by 10% (+13% in Continental Europe, -3% in the UK & Ireland, +20% in Asia). However, at constant exchange rates, there would have been a decrease of 2% (+1% in Continental Europe, -3% in the UK & Ireland, -7% in Asia). The result in France, an increase in takings (in local currency) of 2%, represents a welcome achievement in the context of increased State involvement, with effect from 29 June 2009, in the provision of passport photography.

Digital media kiosks

Digital media kiosks allow consumers to print photos from a range of digital media on a self-service basis.

At the half year end, the total number of digital media kiosks sited was unchanged at 4,900 (including France 2,900, UK & Ireland 1,000 and Switzerland 600).

In the half year, takings increased by 10% (-1% at constant exchange rates), contributing 9% (2008: 9%) of the Operations total.

Amusement and business service equipment

At the half year end, the total number of units of amusement and business service equipment sited was 17,000, which compares with 17,700 a year ago and 16,600 six months ago. Whilst numerous, units of amusement and business service equipment contributed only 9% (2008: 10%) of Operations revenue, with the most important category being kiddie rides.

Sales & Servicing

Substantially all Sales & Servicing revenue from continuing operations derives from the sale to third parties of retail photographic equipment, together with related consumables and servicing. KIS, based in Grenoble in France, is the principal Sales & Servicing subsidiary, but other subsidiaries also sell equipment and consumables to third parties. KIS also supplies new equipment to Operating subsidiaries of the Group.

	Revenue			Operating profit		
	2009 £m	2009† £m	2008 £m	2009 £m	2009† £m	2008 £m
Half year to 31 October						
Sales & Servicing	23.8	21.8	22.4	2.2	2.0	(2.9)
† Trading results of overseas subsidiaries converted at 2008 exchange rates Continuing operations only and before exceptional items						

Retail photographic equipment

Retail photographic equipment principally comprises minilabs (with an output of 1,000-2,000 prints per hour), standalone and attended photo album machines, and digital media kiosks. The period also benefited from a substantial contract for biometric enrolment stations for Switzerland.

Sales & Servicing's improved result, before exceptional costs, in the period, after losses in May and June, reflects substantial savings through improved supplier control and

management, a reduction in payroll costs following redundancies at KIS, and a more effective sales force. It also reflects 2008 being a particularly poor period.

In the first half, KIS started the volume production of Photobook Makers, sales of which should accelerate in the second half.

Discontinued activities

The disposal of Imaging Solutions, the Group's wholesale photo-processing labs business, was completed on 31 July 2009. The "profit" shown from discontinued operations within the Statement of Comprehensive Income of £3.0m includes a transfer from translation reserves to profit of £3.2m.

BOARD

Following the recent appointment of Richard Seurat as CEO Designate and Emmanuel Olympitis as a non-executive Director, the Board now comprises three executive Directors and four non-executive Directors, of whom two (John Lewis and Emmanuel Olympitis) are deemed to be independent. Upon his appointment as a Director, Emmanuel Olympitis was appointed Chairman of the Audit Committee. With effect from 7 December 2009, he has also been appointed to the Nomination and Remuneration Committees. Accordingly, Board and Committee membership is now compliant with the Combined Code on Corporate Governance.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the continuing business activities of the Group, in the opinion of the Board, are:

- reduced demand for ID photographs as governments introduce requirements for on-site photography in connection with the centralisation of biometric data in support of passport and other ID applications, reducing, perhaps substantially, Operations revenue;
- a further reduction in the retail base, reducing the market for Sales & Servicing;
- a change of habits by digital camera users, resulting in lower sales of equipment and consumables;
- increased competition from major multi-national companies as photo-printing shifts from silver halide to dye-sublimation and ink-jet technologies, reducing equipment sales and profit margins; and
- further volatility in foreign exchange rates.

OUTLOOK

The second half is expected to benefit from recent improvements in the day-to-day management of the Group. However, the second half historically tends to be much the weaker of the two, in particular for Operations, and market conditions remain extremely difficult. Accordingly, the Board is hopeful, rather than confident, that the second half will be profitable.

By the same token, whilst the Group remains highly cash generative, as was demonstrated so clearly in the first half, a much smaller improvement can be expected in the net cash position in the second half.

Future anticipated sales of the Photobook Maker, together with the strategic focus involving the deployment of low cost innovative devices in the main territories, are expected to regain market share and improve takings in the coming years.

DIVIDENDS

The annual results announcement of 2 July 2009 stated: “Whilst the Board’s focus is principally on strengthening the Group’s business in the face of adverse market conditions, the Board will consider a resumption of dividends once net debt is further substantially reduced or eliminated and the financial result from continuing operations significantly improves”.

In the half year, net debt has been eliminated and the financial result from continuing operations has significantly improved. As a result, the Board has decided to resume dividend payment to shareholders, with an interim dividend of 0.25p per share. The dividend will be paid on 4 May 2010 to shareholders on the register on 26 March 2010, with an ex-dividend date of 24 March 2010.

The level of final dividend to be proposed for the year to 30 April 2010 will be considered by the Board at the time of the Preliminary Announcement, having regard to the result for the year, prospects and future cash requirements.

Hugo Swire
Chairman

8 December 2009

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 October 2009

	Notes	Unaudited 6 months to 31 October 2009 £'000	*Unaudited 6 months to 31 October 2008 £'000	Audited Year to 30 April 2009 £'000
Continuing operations				
Revenue	3	117,694	108,122	210,538
Cost of sales		(98,516)	(96,876)	(194,814)
Gross profit		19,178	11,246	15,724
Other operating income		715	627	1,436
Administrative expenses		(9,786)	(6,946)	(18,883)
Share of post-tax losses from associates		(6)	(24)	(5)
Operating profit/(loss)	3	10,101	4,903	(1,728)
Analysed between:				
Profit before exceptional items		12,257	8,466	4,999
Impairment charges	4	-	(3,238)	(5,491)
Restructuring and other items	4	(2,156)	(325)	(1,236)
		10,101	4,903	(1,728)
Finance revenue		55	390	394
Finance cost		(1,155)	(2,369)	(3,810)
Profit/(loss) before tax		9,001	2,924	(5,144)
Total tax (charge)/credit	6	(3,952)	(886)	1,581
Profit/(loss) for the period – from continuing operations		5,049	2,038	(3,563)
Profit/(loss) for the period – from discontinued operations	5	3,027	(399)	(14,174)
Profit/(loss) for the period		8,076	1,639	(17,737)
Other comprehensive income				
Exchange differences arising on translation of foreign operations		(394)	3,811	13,040
Translation reserve taken to income statement on disposal		(3,042)	-	-
Actuarial movements in defined benefit obligations and other post-employment benefit obligations		-	-	(1,366)
Deferred tax on actuarial movements		-	-	290
Other comprehensive (expense)/income (net of tax)		(3,436)	3,811	11,964
Total comprehensive income/(expense) for the period		4,640	5,450	(5,773)
Profit/(loss) for the period attributable to:				
Owners of the parent		7,988	1,688	(15,622)
Non-controlling interests		88	(49)	(2,115)
		8,076	1,639	(17,737)
Total comprehensive income attributable to:				
Owners of the parent		4,547	5,327	(3,965)
Non-controlling interests		93	123	(1,808)
		4,640	5,450	(5,773)
Earnings/(loss) per share (total)				
Basic	8	2.22p	0.47p	(4.34p)
Diluted	8	2.21p	0.47p	(4.34p)
Earnings/(loss) per share (continuing operations)				
Basic	8	1.38p	0.54p	(1.03p)
Diluted	8	1.37p	0.54p	(1.03p)

* Restated to reflect a disposed business as a discontinued operation (note 5)

GROUP CONDENSED STATEMENT OF FINANCIAL POSITION
as at 31 October 2009

	Notes	Unaudited 31 October 2009 £'000	Unaudited 31 October 2008 £'000	Audited 30 April 2009 £'000
Assets				
Non-current assets				
Goodwill	9	10,108	11,486	10,106
Other intangible assets	9	9,271	14,909	8,932
Property, plant and equipment	9	63,075	77,564	74,644
Investment property	9	2,560	2,815	2,882
Investments in associates		570	677	716
Other financial assets – held to maturity		543	486	543
– available-for-sale		259	105	165
Deferred tax assets		309	142	352
Trade and other receivables		1,489	1,389	1,443
		88,184	109,573	99,783
Current assets				
Inventories		24,884	30,401	24,488
Trade and other receivables		18,528	29,782	21,456
Other financial assets – held to maturity		14	278	15
– available-for-sale		55	286	347
Derivative financial asset		-	77	-
Current tax		19	138	4,138
Cash and cash equivalents	10	40,669	21,785	19,285
		84,169	82,747	69,729
Assets held for sale		-	-	8,008
Total assets	3	172,353	192,320	177,520
Equity				
Share capital		2,039	2,037	2,037
Share premium		5,491	5,436	5,436
Treasury shares		(5,802)	(5,802)	(5,802)
Other reserves		18,226	12,820	21,944
Retained earnings		57,506	67,630	49,238
Equity attributable to owners of the parent		77,460	82,121	72,853
Non-controlling interests		797	2,712	781
Total equity		78,257	84,833	73,634
Liabilities				
Non-current liabilities				
Financial liabilities		28,473	35,530	29,611
Post-employment benefit obligations		4,374	4,764	4,310
Provisions		13	4	15
Deferred tax liabilities		3,607	6,743	3,892
Trade and other payables		5	1,470	194
		36,472	48,511	38,022
Current liabilities				
Financial liabilities		10,183	16,903	16,284
Derivative financial liability		260	-	260
Provisions		4,023	3,041	2,837
Current tax		5,930	3,936	3,244
Trade and other payables		37,228	35,096	35,438
		57,624	58,976	58,063
Liabilities held for sale		-	-	7,801
Total equity and liabilities		172,353	192,320	177,520

GROUP CONDENSED STATEMENT OF CASH FLOWS
for the six months ended 31 October 2009

	Notes	Unaudited 6 months to 31 October 2009 £'000	*Unaudited 6 months to 31 October 2008 £'000	Audited Year to 30 April 2009 £'000
Cash flows from operating activities				
Profit/(loss) before tax		9,001	2,924	(5,144)
Finance cost		1,155	2,369	3,810
Finance revenue		(55)	(390)	(394)
Operating profit/(loss) from continuing operations		10,101	4,903	(1,728)
Operating profit/(loss) from discontinued operations	5	7	(1,319)	(7,667)
Share of post-tax loss from associates		6	24	5
Amortisation and depreciation		15,006	16,784	36,431
Impairment		-	3,238	9,178
Loss on sale of property, plant and equipment		333	74	66
Exchange differences		372	820	(2,357)
Other items		(109)	(14)	(1,373)
Changes in working capital		5,175	(2,481)	9,429
Cash generated from operations		30,891	22,029	41,984
Interest paid		(582)	(2,330)	(3,577)
Taxation received/(paid)		2,667	1,324	(267)
Net cash generated from operating activities		32,976	21,023	38,140
Cash flows from investing activities				
Cash (outflow)/inflow from disposal of subsidiaries		(2,383)	-	70
Investment in intangible assets		(1,465)	(1,190)	(2,998)
Proceeds from sale of intangible assets		60	-	187
Purchase of property, plant and equipment		(2,865)	(6,345)	(13,589)
Proceeds from sale of property, plant and equipment		323	187	512
Purchase of other investments		-	(56)	(111)
Interest received		55	207	352
Dividends received from associate		-	-	72
Net cash utilised in investing activities		(6,275)	(7,197)	(15,505)
Cash flows from financing activities				
Issue of Ordinary shares to equity shareholders		57	-	-
Repayment of capital element of finance leases		(185)	(235)	(551)
Proceeds from borrowings		246	8,539	9,729
Repayment of borrowings		(4,614)	(10,456)	(24,418)
(Increase)/decrease in other financial assets		-	(241)	36
Dividends paid to non-controlling interests		(48)	-	-
Net cash utilised in financing activities		(4,544)	(2,393)	(15,204)
Net increase in cash and cash equivalents		22,157	11,433	7,431
Cash and cash equivalents at beginning of the period		18,616	8,317	8,317
Exchange (loss)/gain on cash and cash equivalents		(167)	2,001	2,868
Cash and cash equivalents at end of the period		40,606	21,751	18,616

* Restated to reflect a disposed business as a discontinued operation (note 5)

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 October 2009

	Share capital £'000	Share premium £'000	Treasury shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Attributable to owners of the parent £'000	Non-controlling interests £'000	Total £'000
At 1 May 2008	2,037	5,436	(5,802)	2,528	6,714	66,019	76,932	2,589	79,521
Exchange differences	-	-	-	-	3,639	-	3,639	172	3,811
Profit/(loss) for period	-	-	-	-	-	1,688	1,688	(49)	1,639
Share options	-	-	-	-	-	(138)	(138)	-	(138)
Transfers	-	-	-	-	(61)	61	-	-	-
At 31 October 2008	2,037	5,436	(5,802)	2,528	10,292	67,630	82,121	2,712	84,833
At 1 May 2008	2,037	5,436	(5,802)	2,528	6,714	66,019	76,932	2,589	79,521
Exchange difference	-	-	-	-	12,606	-	12,606	434	13,040
Loss for period	-	-	-	-	-	(15,622)	(15,622)	(2,115)	(17,737)
Actuarial movement in defined benefit pension scheme and other post-employment benefit obligations	-	-	-	-	-	(1,206)	(1,206)	(160)	(1,366)
Deferred tax on actuarial movements	-	-	-	-	-	257	257	33	290
Share options	-	-	-	-	-	(114)	(114)	-	(114)
Transfers	-	-	-	-	96	(96)	-	-	-
At 30 April 2009	2,037	5,436	(5,802)	2,528	19,416	49,238	72,853	781	73,634
At 1 May 2009	2,037	5,436	(5,802)	2,528	19,416	49,238	72,853	781	73,634
Shares issued in period	2	55	-	-	-	-	57	-	57
Exchange differences	-	-	-	-	(399)	-	(399)	5	(394)
Profit for period	-	-	-	-	-	7,988	7,988	88	8,076
Translation reserve taken to income statement on disposal of subsidiaries	-	-	-	-	(3,042)	-	(3,042)	-	(3,042)
Other transfers on disposal	-	-	-	(277)	-	277	-	(29)	(29)
Share options	-	-	-	-	-	3	3	-	3
Dividends	-	-	-	-	-	-	-	(48)	(48)
At 31 October 2009	2,039	5,491	(5,802)	2,251	15,975	57,506	77,460	797	78,257

NOTES TO THE INTERIM REPORT

1 Corporate information

The condensed consolidated interim financial statements of Photo-Me International plc (the "Company") for the six months ended 31 October 2009 ("the Interim Report") were approved and authorised for issue by the Board of Directors on 8 December 2009.

The Company is a public limited company, incorporated and domiciled in England, whose shares are quoted on the London Stock Exchange, under symbol PHTM.

Photo-Me's principal activities are the operation, sale and servicing of a wide range of instant service equipment. The Group operates coin-operated automatic photobooths for identification and fun purposes, and a diverse range of vending equipment, including digital media kiosks, amusement machines and business service equipment. Sales and servicing comprises the manufacture, sale and after-sale servicing of both the above-mentioned vending equipment and a range of photo-processing equipment, including photobook makers and minilabs. The principal operations of the Group are in the United Kingdom and Ireland, Continental Europe and Asia.

2 Basis of preparation and accounting policies

The condensed consolidated interim financial statements for the six months ended 31 October 2009 have been prepared in accordance with IAS 34 Interim Financial Reporting and International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority. They do not include all of the information and disclosures required for full annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 30 April 2009. The condensed financial statements do not constitute statutory accounts within the meaning of section 434 of the UK Companies Act 2006.

The Interim Report is unaudited but has been reviewed by the auditors and their report to the Company is included in the Interim Report. The comparative figures for the financial year ended 30 April 2009 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors (i) was 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 of the Companies Act 2006.

Accounting policies

The accounting policies applied by the Group in this Interim Report are the same as those applied in the Group's financial statements for the year ended 30 April 2009, except as indicated below.

New standards adopted in the period:

IFRS8 Operating Segments. This standard requires that segmental reporting in the financial statements is on the same basis as reported internally to the Chief Operating Decision Maker. Adopting this standard has no impact on the reported results or financial position of the Group, but has impacted on the presentation and disclosure of operating segments.

IAS1 Revised Presentation of Financial Statements. These interim financial statements reflect the changes in presentation and terminology for financial statements as required by this revised standard. The standard, however, has no impact on the reported results or financial position of the Group.

Discontinued operations

The Group's wholesale lab business was disposed on 31 July 2009, with effect from 1 May 2009. At 30 April 2009, this business was classified as assets and liabilities held for sale in the balance sheet and its results were shown as a discontinued operation in the income statement. Accordingly, the results for the six months ended 31 October 2008 have been restated to show the results of this business as a discontinued activity.

Use of non-GAAP profit measures

Items which, due to their significance and special nature, do not reflect the Group's underlying performance, are excluded from underlying profit and performance. These items may be gains or losses and can have a significant impact on both absolute profit and profit trends.

The directors believe that underlying profit (referred to as adjusted profit) and underlying diluted earnings per share (referred to as adjusted earnings per share) provide additional useful information to shareholders on underlying trends and performance. These measures are used internally and may not be directly comparable to other companies' adjusted profit measures, as underlying profit is not defined under IFRS.

The Group Condensed Statement of Comprehensive Income identifies those one-off exceptional items, which the Group considers do not reflect underlying profit and performance. This presentation for non-GAAP measures is used internally to monitor performance. Such non-GAAP measures include adjusted earnings after tax and alternative earnings per share. These figures are explained and reconciled in the notes below.

Risks and uncertainties

The principal risks and uncertainties affecting the business activities of the Group are set out in the "Risks and Uncertainties" section of the Interim Management Report, contained within this Interim Report. These should be read in conjunction with the cautionary statement regarding forward looking statements.

Going concern

The Annual Report for the year-ended 30 April 2009 and the Interim Report for the six months ended 31 October 2009 have been prepared on a going concern basis. In reaching this conclusion, management has reviewed budgets, cash flow forecasts, updated forecasts and current trading results and financing arrangements. The Annual Report for 2009 contained a full description of the activities of the Group, its financial position, cash flows, liquidity position, facilities and borrowing position, together with the main risk factors likely to impact on the Group. This Interim Report for the six months to 31 October 2009 provides updated information regarding business activities, financial position, cash flows and liquidity position.

3 Segmental analysis

The Group has adopted IFRS8 Operating Segments with effect from 1 May 2009. IFRS8 requires operating segments to be identified based on internal information presented to the Chief Operating Decision Maker in order to allocate resources to the segments and monitor performance. The Group has identified three segments as set out below.

- (i) Operations comprises the operation of unattended vending equipment, in particular photobooths, digital media kiosks, amusement machines and business service equipment.
- (ii) Sales & Servicing comprises the manufacture, sale and after-sale service of this vending equipment and a range of photo-processing equipment, including photobook makers and minilabs, together with the servicing of other third party equipment.
- (iii) The Group reports head office costs in an additional segment, Corporate.

The Group monitors performance at the operating profit level (revenue less costs) before interest and taxation.

For the analysis of segment assets, corporate assets includes the assets of the investment and investment property companies and those of the head office, and certain bank and cash balances, which cannot be allocated to other segments.

3 Segmental analysis (continued)

Results for six months ended 31 October 2009

	Operations £'000	Sales & Servicing £'000	Corporate £'000	Sub-total £'000	Discontinued operations £'000	Total £'000
Total segment revenue	93,847	32,609	-	126,456	1,759	128,215
Inter-segment revenue	-	(8,762)	-	(8,762)	-	(8,762)
External revenue	93,847	23,847	-	117,694	1,759	119,453
Operating profit/(loss)	11,645	31	(1,575)	10,101	7	10,108
Finance income				55	1	56
Finance expense				(1,155)	(2)	(1,157)
Profit on sale				-	3,052	3,052
Profit before tax				9,001	3,058	12,059
Tax				(3,952)	(31)	(3,983)
Profit after tax				5,049	3,027	8,076

Operating profit includes:

Share of associates	(13)	7	-	(6)	-	(6)
Amortisation and depreciation	(13,361)	(1,217)	(393)	(14,971)	(35)	(15,006)
Employment termination and other restructuring costs	-	(2,156)	-	(2,156)	-	(2,156)

Assets at 31 October 2009

Segment assets	106,850	48,854	15,751	171,455	-	171,455
Investments in associates	306	264	-	570	-	570
Total assets	107,156	49,118	15,751	172,025	-	172,025

Additions to non-current assets	3,075	1,693	69	4,837	-	4,837
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Reconciliation of segment assets to total assets

Segment assets						172,025
Deferred tax						309
Current tax						19
Total						172,353

Seasonality of operations

Historically, the Group's Operations activities have shown greater revenue and profits in the first half of the year than the second. For the current year ending 30 April 2010, it is expected that this pattern will continue for Operations. Regarding Sales & Servicing, future anticipated sales of Photobook Maker will benefit the second half.

3 Segmental analysis (continued)

Results for six months ended 31 October 2008

	Operations £'000	Sales & Servicing £'000	Corporate £'000	Sub-total £'000	Discontinued operations £'000	Total £'000
Total segment revenue	85,728	29,309	-	115,037	7,782	122,819
Inter-segment revenue	-	(6,915)	-	(6,915)	-	(6,915)
External revenue	85,728	22,394	-	108,122	7,782	115,904
Operating profit/(loss)	10,496	(5,950)	357	4,903	(1,319)	3,584
Finance income				390	32	422
Finance expense				(2,369)	(21)	(2,390)
Profit on sale				-	815	815
Profit/(loss) before tax				2,924	(493)	2,431
Tax				(886)	94	(792)
Profit/(loss) after tax				2,038	(399)	1,639

Operating profit includes:

Share of associates	(30)	6	-	(24)	-	(24)
Amortisation and depreciation	(12,607)	(2,539)	(362)	(15,508)	(1,276)	(16,784)
Impairment	(238)	(3,000)	-	(3,238)	-	(3,238)
Employment termination and other restructuring costs	(325)	-	-	(325)	-	(325)

Assets at 31 October 2008

Segment assets	114,928	45,639	9,517	170,084	21,279	191,363
Investments in associates	523	154	-	677	-	677
Total assets	115,451	45,793	9,517	170,761	21,279	192,040

Additions to non-current assets	5,800	1,685	39	7,524	11	7,535
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Reconciliation of segment assets to total assets

Segment assets						192,040
Deferred tax						142
Current tax						138
Total						192,320

3 Segmental analysis (continued)

Results for Year ended 30 April 2009

	Operations £'000	Sales & Servicing £'000	Corporate £'000	Sub-total £'000	Discontinued operations £'000	Total £'000
Total segment revenue	166,144	62,525	-	228,669	14,753	243,422
Inter-segment revenue	-	(18,131)	-	(18,131)	-	(18,131)
External revenue	166,144	44,394	-	210,538	14,753	225,291
Operating profit/(loss)	10,791	(10,567)	(1,952)	(1,728)	(7,667)	(9,395)
Finance income				394	53	447
Finance expense				(3,810)	(38)	(3,848)
Loss on sale & valuation adjustments				-	(7,292)	(7,292)
Loss before tax				(5,144)	(14,944)	(20,088)
Tax				1,581	770	2,351
Loss after tax				(3,563)	(14,174)	(17,737)

Operating profit includes:

Share of associates	(52)	47	-	(5)	-	(5)
Amortisation and depreciation	(27,500)	(5,311)	(750)	(33,561)	(2,870)	(36,431)
Impairment	(486)	(5,005)	-	(5,491)	(3,687)	(9,178)
Employment termination and other restructuring costs	(813)	(423)	-	(1,236)	-	(1,236)

Assets at 30 April 2009

Segment assets	111,350	42,434	10,522	164,306	8,008	172,314
Investments in associates	484	232	-	716	-	716
Total assets	111,834	42,666	10,522	165,022	8,008	173,030

Additions to non-current assets	12,895	3,570	91	16,556	31	16,587
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Reconciliation of segment assets to total assets

Segment assets						173,030
Deferred tax						352
Current tax						4,138
Total						177,520

4 Exceptional items

The Group separately identifies and discloses significant one-off or unusual items (termed exceptional items). Management believes this provides a more meaningful analysis of the trading results of the Group, as this more clearly reflects underlying performance.

	6 months to 31 October 2009 £'000	6 months to 31 October 2008 £'000	Year to 30 April 2009 £'000
Charged against operating profit			
Impairment of intangible assets	-	3,000	5,005
Impairment of property, plant and equipment	-	-	486
Write-down of inventory	-	238	-
Employment termination and other restructuring costs	2,156	325	1,236
Total exceptional costs	2,156	3,563	6,727
Related tax credit	(742)	(1,227)	(2,316)
Net exceptional costs	1,414	2,336	4,411

Exceptional items for the six months to 31 October 2009 primarily relate to restructuring in the Sales & Servicing Division, being redundancies at the French manufacturing plant.

Exceptional items in the year ended 30 April 2009 (and the six months to 31 October 2008) primarily related to the impairment of previously capitalised research and development costs for minilab photo-processing equipment, reflecting the significantly reduced prospects of sales. In addition, a number of old silver halide digital printing kiosks were impaired and certain spare parts connected with operating equipment previously impaired were also written off as an exceptional item. There were also redundancies within the Group's Sales & Servicing Division.

5 Discontinued operations

The discontinued operations for the six months to 31 October 2009 relate to the Group's wholesale lab business. Those for the six months to 31 October 2008 and the year-ended 30 April 2009 relate to the Group's wholesale lab business and the Group's US Operations business. The wholesale lab business was classified as held for sale in the 30 April 2009 Group Condensed Statement of Financial Position and the Group's US operations business was disclosed as held for sale in the 30 April 2008 Group Condensed Statement of Financial Position. The Group's wholesale lab business was disposed of on 31 July 2009, following shareholder approval at the extraordinary general meeting on 30 July 2009, effective 1 May 2009. The Group's US Operations business was sold on 16 July 2008, effective 1 May 2008.

	6 months to 31 October 2009 £'000	Restated 6 months to 31 October 2008 £'000	Year to 30 April 2009 £'000
Revenue	1,759	7,782	14,753
Operating profit/(loss)	7	(1,319)	(7,667)
Net finance (expense)/income	(1)	11	15
Profit/(loss) before tax	6	(1,308)	(7,652)
Tax (charge)/credit	(31)	94	770
Loss after tax	(25)	(1,214)	(6,882)
Valuation adjustment	-	-	(8,107)
Loss from discontinued operations pre-sale	(25)	(1,214)	(14,989)
Wholesale lab – profit on sale	3,052	-	-
US operations – profit on sale	-	815	815
Profit/(loss) from discontinued operations	3,027	(399)	(14,174)
Attributable to:			
Owners of the parent	3,027	(261)	(11,899)
Non-controlling interests	-	(138)	(2,275)
	3,027	(399)	(14,174)

Management has disclosed the most up-to-date wholesale lab trading information available to the Group, above. Any adjustments to the information disclosed will have a nil net impact on the discontinued profit for the period.

Included in the profit on sale of £3,052,000 is a transfer from translation reserve to profit of £3,247,000.

During the six months ended 31 October 2009, there were no cash flows to report for discontinued operations, save the outflow on sale which is shown in the line, "Cash (outflow)/inflow from disposal of subsidiaries" in the statement of cash flows.

During the six months ended 31 October 2008, the wholesale lab business contributed a £365,000 outflow from operating activities and an inflow of £25,000 from investing activities.

During the year ended 30 April 2009, the discontinued businesses contributed a £1,411,000 outflow from operating activities and an outflow of £22,000 from investing activities.

6 Taxation

	6 months to 31 October 2009 £'000	6 months to 31 October 2008 £'000	Year to 30 April 2009 £'000
Profit/(loss) before tax from continuing operations	9,001	2,924	(5,144)
Profit/(loss) before tax from discontinued operations	3,058	(493)	(14,944)
Profit/(loss) before tax from continuing and discontinued operations	12,059	2,431	(20,088)
Taxation (charge)/credit – continuing operations	(3,952)	(886)	1,581
Taxation (charge)/credit – discontinued operations	(31)	94	770
Total taxation (charge)/credit	(3,983)	(792)	2,351
Effective tax rate – continuing operations	43.9%	30.3%	30.7%

The taxation expense is recognised based on management's best estimate of the tax rate expected for the full financial year. The higher effective rate in October 2009 arises from the impact of timing differences on depreciation for accounting and tax purposes for which no deferred tax was recognised.

7 Dividends

No dividends were paid for the years ended 30 April 2008 and 30 April 2009. The Board has declared an interim dividend of 0.25p per share for the year-ending 30 April 2010, to be paid on 4 May 2010 to shareholders on the register at 26 March 2010.

8 Earnings/(loss) per share

(i) Earnings/(loss) per share (total)

The earnings and weighted average number of shares used in the calculation of earnings/(loss) per share are set out in the table below:

	6 months to 31 October 2009	6 months to 31 October 2008	Year to 30 April 2009
Basic earnings/(loss) per share	2.22p	0.47p	(4.34p)
Diluted earnings/(loss) per share	2.21p	0.47p	(4.34p)
Earnings/(loss) available to Ordinary shareholders (£'000)	7,988	1,688	(15,622)
Weighted average number of shares in issue in the period			
– basic ('000)	359,751	359,724	359,724
– including dilutive share options ('000)	361,650	359,724	359,724

(ii) Earnings/(loss) per share (continuing operations)

In addition to showing on the face of the Group Condensed Statement of Comprehensive Income total earnings/(loss) per share (from continuing and discontinued operations), the Group also shows on the face of the Group Condensed Statement of Comprehensive Income earnings/(loss) from continuing operations.

	6 months to 31 October 2009	* 6 months to 31 October 2008	Year to 30 April 2009
Basic earnings/(loss) per share from continuing operations	1.38p	0.54p	(1.03p)
Diluted earnings/(loss) per share from continuing operations	1.37p	0.54p	(1.03p)
Earnings/(loss) available to Ordinary shareholders (£'000)	7,988	1,688	(15,622)
Less: earnings/(loss) from discontinued operations (£'000)	3,027	(261)	(11,899)
Earnings/(loss) from continuing operations (£'000)	4,961	1,949	(3,723)
Weighted average number of shares in issue in the period			
– basic ('000)	359,751	359,724	359,724
– including dilutive share options ('000)	361,650	359,724	359,724

* Restated to reflect the disposed wholesale lab business as a discontinued operation.

9 Non-current assets – intangibles, property, plant and equipment and investment property

	Goodwill £'000	Other intangible assets £'000	Property, plant and equipment £'000	Investment property £'000
Net book value at 1 May 2009	10,106	8,932	74,644	2,882
Exchange adjustment	2	(23)	(697)	(2)
Additions				
– photobooths and vending machines	-	-	2,834	-
– research and development costs	-	1,394	-	-
– other additions	-	71	538	-
– transfers from inventory	-	-	31	-
Depreciation provided in the period	-	(993)	(13,658)	(320)
Net book value of disposals	-	(110)	(617)	-
Net book value at 31 October 2009	10,108	9,271	63,075	2,560

10 Net debt

	31 October 2009 £'000	31 October 2008 £'000	30 April 2009 £'000
Cash and cash equivalents per the statement of financial position	40,669	21,785	19,285
Financial assets - held to maturity	557	764	558
Bank overdrafts	(63)	(34)	(3,222)
Non-current bank loans	(27,953)	(35,083)	(29,237)
Current instalments on bank loans	(9,759)	(16,495)	(12,817)
Non-current finance leases	(520)	(447)	(374)
Current-finance leases	(361)	(374)	(245)
Net cash/(debt) from continuing operations	2,570	(29,884)	(26,052)
Net cash from discontinued operations	-	-	2,553
Net cash/(debt) from continuing and discontinued operations	2,570	(29,884)	(23,499)

11 Related parties

The Group's significant related parties are disclosed in the 2009 Annual Report and include its associates, its pension funds and the Company's Directors.

Shareholder approval was sought and given for the disposal of the Group's wholesale lab business. This transaction was classified as a related party transaction under the London Stock Exchange Rules, as the acquirer, RB Imaging Holdings GmbH, was a company wholly-owned by Mr R Bauer, the CEO of Imaging Solutions AG. Mr Bauer also owned the remaining shares (14%) of Imaging Solutions not owned by Photo-Me International. The disposal of the wholesale lab business is accounted for as a discontinued operation in the above notes.

12 Non-GAAP Measures

As indicated in Note 2, Basis of preparation and accounting policies, the Group uses certain non-GAAP measures to monitor performance internally. Included in these measures are adjusted earnings after tax and adjusted basic and diluted earnings per share, together with EBITDA (earnings before interest, taxation, depreciation and amortisation).

Adjusted earnings after tax and adjusted basic and diluted earnings per share from continuing operations

	6 months to 31 October 2009	6 months to 31 October 2008	Year to 30 April 2009
Adjusted profit after tax (£'000)	6,375	4,285	688
Adjusted basic earnings per share	1.77p	1.19p	0.19p
Adjusted diluted earnings per share	1.76p	1.19p	0.19p

The Group shows on the face of the Group Condensed Statement of Comprehensive Income those material one-off items of income and expense which, because of their nature and expected infrequency of the event giving rise to them, merit separate disclosure to allow shareholders better to understand the underlying performance of the Group and to facilitate comparison with prior periods. Adjusted earnings are earnings adjusted for the impact of these one-off items. The Group also shows below basic and diluted earnings per share from continuing operations on this adjusted basis.

Reconciliation of adjusted earnings from continuing operations

	6 months to 31 October 2009	6 months to 31 October 2008	Year to 30 April 2009
Unadjusted earnings/(loss) available to Ordinary shareholders (£'000)	7,988	1,688	(15,622)
Impairment charges (£'000)	-	3,238	5,491
Employment termination and other restructuring costs (£'000)	2,156	325	1,236
Tax on adjustments to earnings (£'000)	(742)	(1,227)	(2,316)
Adjusted earnings/(loss) - total operations (£'000)	9,402	4,024	(11,211)
(Earnings)/loss from discontinued operations (£'000)	(3,027)	261	11,899
Adjusted earnings – continued operations (£'000)	6,375	4,285	688

Calculation of adjusted basic and diluted earnings per share from continuing operations

Adjusted basic earnings per share	1.77p	1.19p	0.19p
Adjusted diluted earnings per share	1.76p	1.19p	0.19p
Weighted average number of shares in issue in the period			
– basic ('000)	359,751	359,724	359,724
– including dilutive share options ('000)	361,650	359,724	360,718

EBITDA

	6 months to 31 October 2009 £'000	6 months to 31 October 2008 £'000	Year to 30 April 2009 £'000
Operating profit before exceptional items	12,257	8,466	4,999
Amortisation and depreciation	14,971	15,508	33,561
EBITDA	27,228	23,974	38,560

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY FINANCIAL REPORT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Hugo Swire (Chairman)

Françoise Coutaz-Replan (Group Finance Director)

8 December 2009

INDEPENDENT REVIEW REPORT BY KPMG AUDIT PLC TO PHOTO-ME INTERNATIONAL PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 October 2009 which comprises the Group condensed statement of comprehensive income, the Group condensed statement of financial position, the Group condensed statement of cash flows, the Group condensed statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly 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 the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly 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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 October 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Mark Sheppard
for and on behalf of KPMG Audit Plc
Chartered Accountants
1 Forest Gate
Brighton Road
Crawley
RH11 9PT

8 December 2009

DISTRIBUTION OF REPORT

This half-yearly report is released to the London Stock Exchange. It may be viewed and down loaded from our website www.photo-me.co.uk

Shareholders and others who require a copy of the report may obtain a copy by contacting the Company Secretary at the Company's registered office.

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