

**PHOTO-ME INTERNATIONAL PLC - PRELIMINARY ANNOUNCEMENT**

Photo-Me (PHTM.L), the instant service equipment group, announces its results for the year to 30 April 2010.

Results highlights:

	<b>Reported</b>			<b>Constant currency</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
Turnover	£222.5m	£210.5m	+5.7%	£211.3m	£210.5m	+0.4%
Reported Operating Profit	£10.5m	£(1.7)m	+£12.2m			
Adjusted Operating Profit †*	£15.1m	£5.0m	+201%	£14.1m	£5.0m	+182%
Adjusted EBITDA †*	£44.2m	£38.6m	+15%			
Adjusted Pre-tax Profit †*	£14.0m	£1.6m	+786%			
Pre-tax Profit/(Loss) *	£9.3m	£(5.1)m	+£14.4m			
EPS (diluted, continuing operations)	1.85p	(1.03)p	+2.88p			
Net Cash/(Debt) ‡	£8.1m	£(23.5)m	+£31.6m			
Dividend	1.25p	nil				

† Before exceptional items \*On continuing operations

‡ As defined in note 9 to the accounts

- Turnover up 5.7% at £222.5million (2009: £210.5million) and by 0.4% on a constant currency basis
- Adjusted Operating Profit up 201% at £15.1million (2009: £5.0million) driven principally by a strong turnaround in the sales and servicing business
- Adjusted EBITDA increased by 15% to £44.2 million
- Adjusted Pre-tax Profit of £14.0 million, up from £1.6 million
- Pre-tax Profit of £9.3million compared to a loss of £5.1 million in 2009
- Cash position improved by £31.6 million leaving net cash balances of £8.1 million
- Dividend restored
- On 6<sup>th</sup> July 2010, rental agreement on building in Grenoble renewed with EDF generating rental income of around £10 million over 9 years

John Lewis, Non-Executive Chairman, said; ‘This has been a year of continued positive change and progression for Photo-Me. We have seen a further step change in our financial performance with a considerable improvement in adjusted operating profit, principally driven by a significant turnaround in our Sales & Servicing business. Cash generation has been strong, we have eliminated our net debt, and we are pleased to be recommending a final dividend of 1.0 pence to give a total dividend for the year of 1.25 pence.

‘Looking forward, the business has a clear plan to improve its substantial core photobooth operations through an active management programme to increase the number of sites we operate by optimising their locations and continuing to bear down on associated costs.

‘Moreover, our strategy to develop complementary products that build on our photobooth strength but offer new diversified streams of revenue and profit growth are continuing to take shape. In particular, the continued development and market interest in our award winning Photobook Maker provides a good opportunity for the future.

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## **CHAIRMAN'S STATEMENT**

This has been a year of continued positive change and progression for Photo-Me.

### **Results**

We have seen a further step change in our financial performance with a considerable improvement in adjusted operating profit and a corresponding improvement in cash flow, which meant we finished the year with net cash of £8.1m compared to net debt last year of £23.5m.

This improvement principally was driven by a turnaround in the performance of our Sales & Servicing business with divisional sales 7.2% higher and a £7.8m improvement in the division's operating result. Our Operations business produced a very creditable performance given continuing difficult market conditions. Turnover for the division was 1.5% lower but operating profit improved by 30% as costs were contained. (All figures quoted here are on a constant currency basis).

### **Strategy**

The strategy of the business over the last 12 months has continued to focus on the development of new complementary products that build upon the strength of the ID photobooth business and offer diversified revenue and profit streams for the future. Considerable effort has been expended on the further development of products such as a range of Photobook Makers which we believe have a strong market potential.

In addition, we have gone through an extensive process of examining every aspect of our core photobooth business, looking for new mechanisms to improve the scale and reach of our operations, selecting the best sites available and improving commercial terms of operations wherever we are able. We have a plan to drive better performance and re-energise this business.

### **Disposals**

The disposal of Imaging Solutions, the Group's loss-making wholesale photo-processing labs business, was completed on 31 July 2009.

### **Board**

There has been a significant reshaping of the Board of Photo-Me.

In May 2010, Hugo Swire MP was appointed Minister of State for Northern Ireland in the new UK Government and consequently resigned as Non-executive Chairman and Director, in line with the principles laid out in the Cabinet Office's Ministerial Code. Consequently, I was appointed Non-Executive Chairman.

The Board of Photo-Me now comprises: John Lewis (Non-executive Chairman), Serge Crasnianski (Deputy Chairman and CEO), Françoise Coutaz-Replan (Group Finance Director), Emmanuel Olympitis (Independent Non-executive Director) and Dan David (Non-executive Director).

### **Dividends**

As a result of the Group's improved financial performance, the Board resumed the payment of dividends following the interim results with a payment of 0.25 pence. With the improvement achieved over the year as a whole the Board is recommending a final dividend of 1.0 pence, making a total for the year of 1.25 pence.

If approved at the Annual General Meeting on 15 September 2010, the final dividend will be paid on 5 November 2010 to shareholders on the register at the close of business on 24 September 2010. The ex-dividend date is 22 September 2010.

### **Outlook**

Photo-Me begins the current year in a much stronger position than existed a year ago. The balance sheet has been strengthened and the business has benefited from a series of operational restructurings which will help to improve the ongoing profitability of the business. A further boost was received on 6<sup>th</sup> July 2010 when a rental agreement on a surplus building in Grenoble was agreed with EDF (Electricite du France) for a sum amounting to approximately £10 million over nine years.

The core photobooth business is being re-energised through an active management programme to increase the number of sites we operate and to optimise the location of those sites. We also plan to rapidly develop our business in China. In addition the photobooth business is set to benefit from the progressive introduction of new, patented products such as a "futuristic" photobooth which will add a new dimension to the product offering and will contribute to the Group's ability to further contain site commission payments. More importantly, the Group believes that its range of Photobook Makers has significant potential.

Subject to the risks and uncertainties detailed in the business and financial review, the Board currently anticipates an improved financial performance over the coming year.

**John Lewis,  
Non-Executive Chairman**

## BUSINESS AND FINANCIAL REVIEW

### BUSINESS REVIEW

Photo-Me has two principal activities, which the Board monitors in assessing the Group's performance:

**Operations** - which comprises the operation of unattended vending equipment, primarily photobooths, digital printing kiosks, photobook makers and amusement machines.

**Sales and Servicing** - which comprises the development, manufacture, sale and after sale servicing of the above-mentioned Operations equipment and a range of photo processing equipment.

The business is international in its reach and focused on three main geographic hubs at present: Continental Europe; UK & Republic of Ireland and Asia.

On continuing operations and before exceptional charges our larger Operations division continued to improve its overall performance. However, the major turnaround came in our Sales and Servicing division which moved from a significant adjusted operating loss in 2009 of £5.2m to an adjusted operating profit of £2.8m this year.

The following geographical analysis is provided in order to give additional information, it is not a segmental analysis used in managing the business.

Geographical analysis of revenue and profit (by origin)

Year to 30 April	Revenue			Operating profit		
	2010 £m	2010† £m	2009 £m	2010 £m	2010† £m	2009 £m
Continental Europe	128.0	120.4	115.8	12.3	11.6	0.4
UK & Republic of Ireland:						
Underlying	55.8	55.6	57.2	(0.6)	(0.6)	(1.2)
Foreign exchange gain				0.2	0.2	2.0
Asia	38.7	35.3	37.5	3.2	2.9	3.8
	<b>222.5</b>	<b>211.3</b>	<b>210.5</b>	<b>15.1</b>	<b>14.1</b>	<b>5.0</b>
† trading results of overseas subsidiaries converted at 2009 exchange rates Continuing operations only and before exceptional items						

Continental Europe, which includes the great majority of Sales & Servicing revenue, once again comprised the largest element of reported Group revenue - 57% on a constant currency basis - but contributed 82% of group adjusted operating profit.

### OPERATIONS

Year to 30 April	Revenue			Operating profit		
	2010 £m	2010† £m	2009 £m	2010 £m	2010† £m	2009 £m
	172.4	163.7	166.1	16.5	15.7	12.1
† trading results of overseas subsidiaries converted at 2009 exchange rates Continuing operations only and before exceptional items						

Operations contributed 78% (2009: 79%) of total group revenue. While divisional revenue (on a constant currency basis) declined by 1.5%, adjusted operating profit rose by 29.8%, principally as a result of further cost management and reduced depreciation costs.

At the year end, the total number of vending sites worldwide was 43,850 (2009: 42,600) of which photoboos represent around half. This extensive network of sites, with related site-owner contracts and relationships, supplemented by an established field service and cash collection infrastructure, represents one of Photo-Me's greatest strengths.

Photo-Me's Operations business is global, trading in 15 industrialised countries. However, 86% of sites are located in three territories - the UK & Ireland, France and Japan. By area, Continental Europe accounted for 18,050 (2009: 17,900) sites; the UK and Ireland for 17,550 (2009: 16,950); and Asia for 8,250 (2009: 7,750). All areas grew slightly the number of sites and this remains a priority for the Group. The Operations business provides good cash flow.

Revenue from Operations (on a constant currency basis) was down 1.6% in the UK but photobooth revenues actually rose by 0.6%. In Europe, overall revenue rose by 0.2% with photoboos up by 1.8%. Japan produced a disappointing result with overall revenue 4.6% lower and photoboos 5.9% lower; we are addressing these performance issues.

### Photoboos

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

Over the year the number of photoboos increased marginally to almost 21,450 sites internationally.

Looking forward, the Group has a plan to further re-energise these substantial core photobooth operations through an active management programme.

The intention is to increase the number of sites we operate in, potentially increasing the site coverage by around 10% over the next 12 months. In addition, having been working in China for three years to understand the market, and having increased the revenue by more than 100% in the year under review, we intend to increase substantially the number of units from our current base of 230.

A systematic process is being undertaken to optimise all our site locations and improve them wherever possible. We are introducing new marketing features to many of our booths, including augmented reality graphics to enhance the appearance of the units. We are also undertaking development work on 3D photoboos and we are continuing to improve the commercial performance of the installed base of units by renegotiating commissions wherever possible.

In addition the photobooth business is set to benefit from the progressive introduction of new, patented products such as a "futuristic" photobooth which will add a new dimension to the product offering and will contribute to the Group's ability to further contain site commission payments.

### Digital printing kiosks

Digital printing kiosks are very much focused in Continental Europe, particularly France, with a smaller presence in the UK. The number of vending sites for digital kiosks increased marginally to 5,015 sites.

The market in France for digital printing kiosks has continued to be positive and we are continuing to widen and broaden our product offering to maintain progress in this part of our operations.

### Amusement and business service equipment

Overall, this activity had a more difficult year, with the children's amusement rides continuing to be impacted by the poor overall economic backdrop. We are working to improve this area of the business with new product offerings such as a new children's simulator ride.

### SALES & SERVICING

	Revenue			Operating profit/(loss)		
	2010	2010†	2009	2010	2010†	2009
	£m	£m	£m	£m	£m	£m
Year to 30 April	50.1	47.6	44.4	2.8	2.6	(5.2)
† trading results of overseas subsidiaries converted at 2009 exchange rates						
Continuing operations only and before exceptional items						

Substantially all of Sales & Servicing revenue derives from the sale to third parties of retail photographic equipment, in the form of machines and related supplies, consumables and maintenance services.

On a constant currency basis, revenue increased by 7.2%, but there was a substantial swing in the adjusted operating profit from a loss of £5.2 million to a profit of £2.6 million.

This very strong turnaround was due to a number of important factors but particularly a significant improvement in the KIS R&D and manufacturing unit in France where the business has been rationalised, restructured and costs have been cut. The commercial team has been significantly improved and we have applied better procurement management, with a consequent improvement in efficiency.

The improvement process in KIS has further to go and a key priority for this financial year is to drive through further cost efficiencies in the manufacturing of our products. In addition, R&D is being completely restructured into individual business units, to improve the focus of each of these units in delivering new products.

In terms of highlights for the year in this division, the contract to supply 357 biometric enrolment stations to Siemens for the Swiss Government was successfully completed. While we remain well placed to compete further in this market as opportunities arise, the Swiss contract looks like being a one-off for the time being as in many countries such investment has been suspended as a result of the economic downturn and national governments' cost controls.

Wet Minilab sales have declined more than expected and we have taken a write down of £1.2 million on current stock as an exceptional item. We expect the market for these products to continue to decline over the next 12 months.

### **Photobook Maker**

Last year, Photo-Me launched the Photobook Maker, the first kiosk able to produce a photobook in minutes. To date this has been aimed at professional photographers – where it has been well received – and at a number of selected retail outlets around the world. The total installed base to date comprises around 500 units.

Photo-Me has had considerable interest from a number of significant OEMs.

Photo-Me views the OEM model as the optimum method for maximizing the sales potential of the product going forward. In addition it will allow Photo-Me to source the units (when required) from low-cost manufacturing areas, allowing KIS to focus its resources on final assembly, customization and quality control.

### **Background to the Photobook market**

The photographic print market remains an industry in transition. In 2004, in Western Europe, of the 22.2 billion photo prints, 5.7 billion were digital, produced from a combination of industrial labs, minilabs, kiosk printers and home printers. In 2009, the total market at 17.4 billion prints, was some 22% lower than five years earlier, but the digital element was 16 billion or over 90% of the total.

Traditional printing is clearly a mature activity and prices and volumes are in gradual decline. Despite the fact that , following the advent of digital photography, an average customer captures eight times more photos than before, many of these images are not ending up on photographic paper. Many consumers are no longer printing photos, but the objective of preserving and sharing memories remains.

Photobooks have enjoyed a strong growth trend in recent years, yet in 2007 represented only around 7.5% by value of the Western European photo printing market (source: Futuresource Consulting). Unlike the traditional 4"x6" print, the photobook is perceived more as a gift than as a printing method and as such, they tend to generate repeat sales from customers. In the US in 2008 (Source: Infotrends), the average photobook consumer bought more than 7 books per year. They were in a variety of formats from 4"x6" to 8"x12" and averaged 23 pages and 46 images.

Currently, because of a lack of appropriate offers, in Europe only c10% of photobooks are ordered at retail outlets. The bulk of the market remains internet based, but many customers (60% according to Kodak) fail to complete an order because it simply takes too long. The provision of a convenient, rapid, high quality and low cost product (from as little as £5/\$5/€5) for the retail environment, represents a major sales opportunity for the Group.

Further development has taken place in the last 12 months and Photo-Me now has a complete suite of Photobook Makers offering a variety of products.

To date these include:

- A standalone, managed retail unit
- A Smartlab incorporating a Photobook Maker
- A range of vending units

Further developments will include the integration of a Photobook Maker with a laser printer; integration with minilabs; the ability to upload photos from a photobooth via social networking sites and download to a Photobook Maker unit.

## FINANCIAL REVIEW

### Statement of comprehensive income

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

Year to 30 April	Revenue			Operating profit		
	2010 £m	2010† £m	2009 £m	2010 £m	2010† £m	2009 £m
Operations	172.4	163.7	166.1	16.5	15.7	12.1
Sales & Servicing	50.1	47.6	44.4	2.8	2.6	(5.2)
Group overheads:						
Underlying				(4.5)	(4.5)	(4.0)
Foreign exchange gain on inter-company balances				0.3	0.3	2.1
	<b>222.5</b>	<b>211.3</b>	210.5	<b>15.1</b>	<b>14.1</b>	5.0

† trading results of overseas subsidiaries converted at 2009 exchange rates

Foreign exchange movements, notably the appreciation against Sterling of 6% in the Euro and 10% in the Japanese Yen, once again had a material effect on the year's reported revenue and adjusted operating profit, both divisionally and centrally.

Turnover increased by 5.7% to £222.5m, but the growth was only 0.4% after adjusting for the impact of exchange translation. Last year group overheads benefited from a £2.1m net exchange gain on intercompany balances, which has been separately identified in the above table to facilitate the comparison; the impact this year was not significant.

Pre-exceptional EBITDA from continuing operations was up 15% to £44.2m (2009: £38.6m) and now represents nearly 20% of revenue. Adjusted operating profit increased significantly from £5.0m to £15.1m.

The net finance costs were contained at £1.0m (2009: £3.4m); the pre-tax profit before exceptional items was £14.0m (2009: £1.6m); after a tax charge of £3.9m (2009: £0.7m), the pre-exceptional post tax profit for the year was £10.1m, compared to £0.8m last year.

Exceptional items amount to £4.8m; they include reorganisation costs (£2.5m) mainly in the sales and servicing business, a general programme of restructuring of the management in all the subsidiaries (£0.7m) and an exceptional provision on stock due to the deterioration of the wet minilab market (£1.2m).

After all these exceptional costs, the reported results from continuing operations show a substantial improvement, with an operating profit of £10.5m (2009: loss £1.7m), a pre-tax profit of £9.3m (2009: loss £5.1m) and an after tax profit of £6.8m (2009: loss £3.6m)

Before exceptional items, fully diluted earnings per share from continuing operations were 2.74p (2009: 0.19p). The reported fully diluted earnings per share from continuing operations were 1.85p (2009: loss 1.03p)

### Statement of financial position

Shareholders' equity totalled £77.6m (2009: £72.9m), equivalent to 21.5p (2009: 20.3p) per share.

A further reduction in net debt was the Board's principal financial objective for the year. It is therefore most pleasing to report that last year's net debt of £23.5m was transformed into a net cash balance of £8.1m at this year end. This £31.6m improvement reflects the strongly cash generative nature of the Group's Operations business, and was mainly achieved through higher underlying profitability; there was a turnaround of £19.9 million in operating profit and also another positive working capital movement of £7.1m (2009: £9.4m).

## Funding and treasury policy

The £31.6m net cash inflow is explained in the following summarised cash flow statement:

	2010 £m	2009 £m
<b>Opening net debt</b>	(23.5)	(45.6)
<b>Cash flow</b>		
Operating profit/(loss)		
– continuing operations	10.5	(1.7)
– discontinued operations	-	(7.7)
Depreciation	29.2	36.4
Impairment	1.2	9.2
Working capital	7.1	9.4
Taxation	0.7	(0.3)
Interest paid	(0.9)	(3.6)
All others	(0.1)	(3.6)
Operating cash flow	47.7	38.1
<b>Use of cash flow</b>		
(Outflow)/inflow from disposal of subsidiaries	(2.4)	0.1
Net capital expenditure	(13.9)	(15.9)
All others	0.2	(0.2)
	(16.1)	(16.0)
<b>Net cash inflow</b>	31.6	22.1
<b>Closing net cash/(debt)</b>	8.1	(23.5)

Cash inflows from operating activities increased by 25% to £47.7m, whilst use of cash flow remained stable at £16.1m.

The improvement in operating cash inflows mainly reflects strongly increased underlying profits. Following high levels of investment in the operating equipment in previous years, capital expenditure was maintained at a lower level (£13.9m for the year).

The Group intends to maintain a net cash position in the year ahead.

### Capital structure

The Group's funding policy is to maintain a timely flow of funds to meet investment requirements. The Board regularly reviews the cash requirements of the Group and sets guidelines and policy.

The Board is committed to enhancing long-term shareholder value, by investing in the business so as to improve the return on investment and by managing the capital gearing ratio.

The Group manages and makes adjustments to its capital structure in the light of the prevailing risks and economic conditions affecting its business activities. This may involve adjusting the rate of dividends, a return to shareholders by capital distribution, the issue of new shares and reviewing the level or type of debt. The Group manages its borrowings by appraising the mix of fixed and floating rate borrowings and the mix of long-term and short-term borrowings. Now that the Group is in a positive net cash position, it keeps its deposits under active review. The Group is primarily financed by Ordinary shares, retained profits and borrowings.

The table below shows the proportion of debt (defined for this table as overdrafts, loans and finance lease obligations) due both within and after two years.

	<b>2010</b> <b>£m</b>	2009 £m
Bank overdrafts	2.1	3.2
Loans	31.2	42.1
Finance leases	1.1	0.6
<b>Total debt</b>	<b>34.4</b>	<b>45.9</b>
Amount due after two years	5.7	15.9
Amount due within two years	28.7	30.0
<b>Total</b>	<b>34.4</b>	<b>45.9</b>
Amount due after two years	16.6%	34.6%
Amount due within two years	83.4%	65.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The Group had £24.2m of unused banking facilities at 30 April 2010 (2009: £21.2m).

#### **Financial instruments**

The Group's principal financial instruments comprise bank loans, finance leases and overdrafts. These instruments are used to raise finance for the Group's operations and to cover capital expenditure and working capital requirements.

The Group takes the view that short-term debtors and creditors are not financial instruments that play a significant medium to long-term role in the financial risk profile of the Group.

#### **Financial risks**

The Group is exposed to a variety of financial risks, including changes in foreign exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential risks for the Group. The Board reviews and agrees policies for managing risks.

#### **Foreign exchange risk**

The Group has a number of overseas subsidiaries whose functional currency is not Sterling. The principal currencies of the Group are Sterling, Euro, Swiss francs and Japanese yen. As a result, changes in exchange rates can impact on the net assets of the Group's balance sheet. Individual subsidiaries are exposed to exchange rate movements as a result of selling or purchasing in foreign currencies. Hedges may be taken out to cover forward foreign exchange contracts to assist in managing the exchange risk from trading. Any amounts hedged are generally short-term (less than one year) and are monitored for their effectiveness.

#### **Interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in interest rates. The Group finances its operations through a mixture of retained profit, cash balances and bank borrowings. The Group borrows in the desired currencies at both fixed and floating rates of interest. The Group regularly monitors the possibility of switching from floating to fixed rate and from fixed to floating. It also monitors the possibility of using cap and floor arrangements. The Group may also take out derivative contracts to limit interest rate exposure.

#### **Liquidity risk**

The Group's objective is to ensure adequate facilities are available and to maintain a balance between continuity of funding and flexibility, through use of overdrafts, bank loans and finance leases. As already stated, at 30 April 2010 the Group had a net cash balance of £8.1m and £24.2m (2009: £21.2m) of undrawn facilities were available. Surplus funds are placed in bank deposit accounts and other investments with high credit ratings.

### Key performance indicators

The Group measures its performance using a mixture of financial and non-financial indicators. These are aligned to the Group's long-term strategy of enhancing shareholder value.

	2010	2009	Change
<b>Operations sites<sup>†</sup>:</b>			
Total	43,850	42,600	+2.9%
Photobooths	21,450	21,050	+1.9%
Digital printing kiosks	5,015	4,950	+1.3%
Other vending equipment	17,385	16,600	+4.7%
<b>Revenue<sup>†</sup>:</b>			
Total	£222.5m	£210.5m	+5.7%
Operations	£172.4m	£166.1m	+3.8%
Sales & Servicing	£50.1m	£44.4m	+12.8%
<b>Underlying EBITDA (excluding exceptional items)<sup>†</sup></b>	<b>£44.2m</b>	<b>£38.6m</b>	<b>+14.5%</b>
<b>Underlying operating profit (excluding exceptional items):</b>			
Total	£15.1m	£5.0m	+\$10.1m
Operations	£16.5m	£12.1m	+\$4.4m
Sales & Servicing	£2.8m	£(5.2)m	+\$8.0m
Group overhead (before foreign exchange)	£(4.5)m	£(4.0)m	-\$0.5m
<b>Decrease/(increase) in net debt</b>	<b>£31.6m</b>	<b>£22.1m</b>	<b>+\$9.5m</b>
<b>Gearing ratio</b>	<b>-</b>	<b>31.9%</b>	<b>-100%</b>
<b>Gross capital expenditure</b>	<b>£15.2m</b>	<b>£16.6m</b>	<b>-\$1.4m</b>
<b>Depreciation and amortisation*</b>	<b>£29.2m</b>	<b>£36.4m</b>	<b>-\$7.2m</b>
<b>Research and development expenditure (including amounts capitalised)</b>	<b>£3.9m</b>	<b>£6.1m</b>	<b>-\$2.2m</b>
<b>Research and development expenditure as a percentage of Sales &amp; Servicing revenue</b>	<b>7.8%</b>	<b>13.7%</b>	<b>-5.9%</b>

<sup>†</sup>Continuing operations

### Financial objective

Photo-Me's main financial objective for the future is to further improve profitability and cash generation and to deliver good returns to our shareholders.

### 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 if governments introduce a requirement 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 contraction of consumer spending, reducing the level of Operations revenue;
- a reduction in the retail site-owner base, impacting on Operations revenue and reducing the market for Sales & Servicing;
- the impact on costs of consumables and equipment of a sustained appreciation of the Japanese Yen, in which currency a significant amount of the Group's supplies is denominated, affecting both Operations and Sales & Servicing;
- a continuing lack of available finance for customers, affecting the level of equipment sales and reducing margins;
- 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;
- the need to secure further material orders for the Photobook maker
- further volatility in foreign exchange rates.

Having identified these specific risks and uncertainties, the Board manages them – as much as possible – through the adoption of relevant policies and mitigation plans.

**GROUP STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 30 April 2010**

	Notes	2010			2009		
		Before exceptional items £'000	Exceptional items (Note 3) £'000	Total £'000	Before exceptional items £'000	Exceptional items (Note 3) £'000	Total £'000
<b>Revenue</b>	2	222,507	–	222,507	210,538	–	210,538
Cost of sales		(190,208)	(3,747)	(193,955)	(188,087)	(6,727)	(194,814)
Gross profit		32,299	(3,747)	28,552	22,451	(6,727)	15,724
Other operating income		1,574	–	1,574	1,436	–	1,436
Administrative expenses		(18,806)	(775)	(19,581)	(18,883)	–	(18,883)
Share of post-tax losses from associates		(9)	–	(9)	(5)	–	(5)
<b>Operating profit/(loss)</b>	2	15,058	(4,522)	10,536	4,999	(6,727)	(1,728)
Finance revenue		470	–	470	394	–	394
Finance cost		(1,497)	(255)	(1,752)	(3,810)	–	(3,810)
<b>Profit/(loss) before tax</b>		14,031	(4,777)	9,254	1,583	(6,727)	(5,144)
<b>Total tax (charge)/credit</b>	4	(3,951)	1,498	(2,453)	(735)	2,316	1,581
<b>Profit/(loss) for year – from continuing operations</b>		10,080	(3,279)	6,801	848	(4,411)	(3,563)
<b>Profit/(loss) for year – from discontinued operations</b>	5			3,027			(14,174)
<b>Profit/(loss) for year – from continuing and discontinued operations</b>				9,828			(17,737)
<b>Other comprehensive income</b>							
Exchange differences arising on translation of foreign operations				(836)			13,040
Translation reserve taken to income statement on disposal				(2,992)			–
Actuarial movements in defined benefit obligations and other post-employment benefit obligations				(581)			(1,366)
Deferred tax on actuarial movements				181			290
<b>Other comprehensive (expense)/income (net of tax)</b>				(4,228)			11,964
<b>Total comprehensive income/(expense) for the year</b>				5,600			(5,773)
<b>Profit/(loss) for the year attributable to:</b>							
Owners of the Parent				9,722			(15,622)
Non-controlling interests				106			(2,115)
				9,828			(17,737)
<b>Total comprehensive income/(expense) attributable to:</b>							
Owners of the Parent				5,512			(3,965)
Non-controlling interests				88			(1,808)
				5,600			(5,773)
<b>Earnings/(loss) per share (total)</b>							
Basic earnings/(loss) per share	6			2.70p			(4.34p)
Diluted earnings/(loss) per share	6			2.69p			(4.34p)
<b>Earnings/(loss) per share (continuing operations)</b>							
Basic earnings/(loss) per share	6			1.86p			(1.03p)
Diluted earnings/(loss) per share	6			1.85p			(1.03p)

**GROUP STATEMENT OF FINANCIAL POSITION**  
**as at 30 April 2010**

	Notes	2010 £'000	2009 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	8	10,038	10,106
Other intangible assets	8	9,735	8,932
Property, plant and equipment	8	58,997	74,644
Investment property	8	2,222	2,882
Investments in associates		583	716
Other financial assets - held to maturity		556	543
- available-for-sale		155	165
Deferred tax assets		1,034	352
Trade and other receivables		1,696	1,443
		<b>85,016</b>	<b>99,783</b>
<b>Current assets</b>			
Inventories		22,747	24,488
Trade and other receivables		19,295	21,456
Other financial assets - held to maturity		14	15
- available-for-sale		38	347
Current tax		408	4,138
Cash and cash equivalents		41,916	19,285
		<b>84,418</b>	<b>69,729</b>
Assets held for sale		-	8,008
<b>Total assets</b>		<b>169,434</b>	<b>177,520</b>
<b>Equity</b>			
Share capital		2,039	2,037
Share premium		5,492	5,436
Treasury shares		(5,802)	(5,802)
Other reserves		17,835	21,944
Retained earnings		57,996	49,238
<b>Total shareholders' equity</b>		<b>77,560</b>	<b>72,853</b>
Minority interests		792	781
<b>Total equity</b>		<b>78,352</b>	<b>73,634</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financial liabilities		17,575	29,611
Post-employment benefit obligations		3,659	4,310
Provisions		72	15
Deferred tax liabilities		3,289	3,892
Trade and other payables		703	194
		<b>25,298</b>	<b>38,022</b>
<b>Current liabilities</b>			
Financial liabilities		16,834	16,284
Derivative financial liability		122	260
Provisions		5,119	2,837
Current tax		2,425	3,244
Trade and other payables		41,284	35,438
		<b>65,784</b>	<b>58,063</b>
Liabilities held for sale		-	7,801
<b>Total equity and liabilities</b>		<b>169,434</b>	<b>177,520</b>

**GROUP CONDENSED STATEMENT OF CASH FLOWS**  
**for the year ended 30 April 2010**

	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>		
Operating profit/(loss) from continuing operations	10,536	(1,728)
Operating profit/(loss) from discontinued operations	7	(7,667)
Share of post-tax losses from associates	9	5
Amortisation of intangible assets	2,258	7,482
Depreciation of property, plant and equipment	26,955	28,949
Loss on sale of property, plant and equipment	134	66
Impairment	1,214	9,178
Exchange differences	(40)	(2,357)
Decrease in working capital	7,148	9,429
Other items	(337)	(1,373)
Cash generated from operations	47,884	41,984
Interest paid	(884)	(3,577)
Taxation received/(paid)	660	(267)
<b>Net cash generated from operating activities</b>	<b>47,660</b>	<b>38,140</b>
<b>Cash flows from investing activities</b>		
(Outflow)/proceeds from disposal of subsidiaries	(2,383)	70
Investment in intangible assets	(3,367)	(2,998)
Proceeds from sale of intangible assets	151	187
Purchase of property, plant and equipment	(11,852)	(13,589)
Proceeds from sale of property, plant and equipment	1,253	512
Purchase of other investment	-	(111)
Proceeds from sale of available-for-sale investments	56	-
Interest received	46	352
Dividends received from associate	-	72
<b>Net cash utilised in investing activities</b>	<b>(16,096)</b>	<b>(15,505)</b>
<b>Cash flows from financing activities</b>		
Issue of Ordinary shares to equity shareholders	58	-
Repayment of capital element of finance leases	(381)	(551)
Proceeds from borrowings	260	9,729
Repayment of borrowings	(10,355)	(24,418)
Increase in monetary funds	-	36
Dividends paid to non-equity shareholders	(48)	-
<b>Net cash utilised in financing activities</b>	<b>(10,466)</b>	<b>(15,204)</b>
<b>Net increase in cash and cash equivalents</b>	<b>21,098</b>	<b>7,431</b>
Cash and cash equivalents at beginning of year	18,616	8,317
Exchange gain on cash and cash equivalents	82	2,868
<b>Cash and cash equivalents at end of year</b>	<b>39,796</b>	<b>18,616</b>

## GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 April 2010

	Share capital	Share premium	Treasury shares	Other reserves	Translation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 May 2008</b>	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)	-	-	-
<b>At 30 April 2009</b>	2,037	5,436	(5,802)	2,528	19,416	49,238	72,853	781	73,634
<b>At 1 May 2009</b>	2,037	5,436	(5,802)	2,528	19,416	49,238	72,853	781	73,634
Shares issued in period	2	56	-	-	-	-	58	-	58
Exchange differences	-	-	-	-	(818)	-	(818)	(18)	(836)
Profit for period	-	-	-	-	-	9,722	9,722	106	9,828
Actuarial movement in defined benefit pension scheme and other post-employment benefit obligations	-	-	-	-	-	(581)	(581)	-	(581)
Deferred tax on actuarial movements	-	-	-	-	-	181	181	-	181
Translation reserve taken to income statement on disposal of subsidiaries	-	-	-	-	(2,992)	-	(2,992)	-	(2,992)
Other transfers and disposal	-	-	-	(299)	-	299	-	(29)	(29)
Share options	-	-	-	-	-	37	37	-	37
Dividends	-	-	-	-	-	(900)	(900)	(48)	(948)
<b>At 30 April 2010</b>	2,039	5,492	(5,802)	2,229	15,606	57,996	77,560	792	78,352

## **NOTES**

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

The preliminary results for the year ended 30 April 2010 have been extracted from the audited consolidated financial statements, which were approved by the Board of Directors on 6 July 2010. During the year the Group has adopted the following new standards and amended IFRS's, IFRS7 Financial Instruments - Disclosures (amendments), IFRS8 Operating Segments and IAS1 Presentation of Financial Statements (amendments). Where required by the standards, comparatives have been changed. The audited consolidated financial statements have not yet been delivered to the Registrar of Companies but are expected to be published by early August.

### **Abridged financial information**

The financial information in this announcement which was approved by the Board of Directors and does not constitute the Company's statutory accounts for the years ended 31 March 2009 or 2010 but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s498(2) or (3) Companies Act 2006.

This preliminary announcement has been prepared in accordance with the accounting policies adopted under IFRS.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. This preliminary announcement constitutes a dissemination announcement in accordance with Section 6.23 of the Disclosures and Transparency Rules (DTR).

### **Exceptional items**

The Group's Statement of Comprehensive Income and segmental analysis separately identify an adjusted profit, being trading results before exceptional items. Exceptional items is the term management use to describe those items that are material items of income and expenditure which, in their opinion, due to their size or nature, require separate disclosure in the financial statements to allow a better understanding of the financial performance of the year and in comparison to prior periods and have little predictive value. This is a non-GAAP classification and items listed may not be comparable with similar headed classifications used by other companies. Management believe that adjusted profit and alternative earnings per share provide additional useful information to shareholders on underlying trends and performance.

### **2 Segment analysis**

Operating segments are reported in a manner consistent with internal reporting to the Chief Operating Decision Maker as required by IFRS8. Operating Segments.

The Group operated two business segments during the year: Operations and Sales & Servicing. Operations comprises the operation of unattended vending equipment, in particular photobooths, digital printing kiosks, amusement machines and business service equipment. Sales & Servicing comprises the development, manufacture, sale and after-sale servicing of this Operations equipment and a complete range of photo-processing equipment, together with the servicing of other third party equipment.

	Operations £'000	Sales & Servicing £'000	Total £'000
<b>2010</b>			
Total revenue	172,456	70,670	243,126
Inter-segment revenue	–	(20,619)	(20,619)
<b>Revenue from external customers</b>	<b>172,456</b>	<b>50,051</b>	<b>222,507</b>
<b>EBITDA</b>	<b>42,213</b>	<b>5,522</b>	<b>47,735</b>
<b>Depreciation and amortisation</b>	<b>(25,713)</b>	<b>(2,732)</b>	<b>(28,445)</b>
<b>Adjusted operating profit excluding associates</b>	<b>16,500</b>	<b>2,790</b>	<b>19,290</b>
Share of post-tax loss from associates			(9)
Corporate costs excluding depreciation and amortisation			(3,490)
Corporate depreciation and amortisation			(733)
<b>Adjusted operating profit</b>			<b>15,058</b>
Exceptional operating items			(4,522)
<b>Operating profit</b>			<b>10,536</b>
Finance costs – net			(1,282)
<b>Profit before tax</b>			<b>9,254</b>
Tax			(2,453)
<b>Profit for the year – from continuing operations</b>			<b>6,801</b>
<b>Profit for the year – from discontinued operations</b>			<b>3,027</b>
<b>Profit for year</b>			<b>9,828</b>
<b>2009</b>			
Total revenue	166,144	62,525	228,669
Inter-segment revenue	–	(18,131)	(18,131)
<b>Revenue from external customers</b>	<b>166,144</b>	<b>44,394</b>	<b>210,538</b>
<b>EBITDA</b>	<b>39,642</b>	<b>125</b>	<b>39,767</b>
<b>Depreciation and amortisation</b>	<b>(27,500)</b>	<b>(5,311)</b>	<b>(32,811)</b>
<b>Adjusted operating profit/(loss) excluding associates</b>	<b>12,142</b>	<b>(5,186)</b>	<b>6,956</b>
Share of post-tax loss from associates			(5)
Corporate costs excluding depreciation and amortisation			(1,202)
Corporate depreciation and amortisation			(750)
<b>Adjusted operating profit</b>			<b>4,999</b>
Exceptional operating items			(6,727)
<b>Operating loss</b>			<b>(1,728)</b>
Finance costs – net			(3,416)
<b>Loss before tax</b>			<b>(5,144)</b>
<b>Tax</b>			<b>1,581</b>
<b>Loss for the year – from continuing operations</b>			<b>(3,563)</b>
<b>Loss for the year – from discontinued operations</b>			<b>(14,174)</b>
<b>Loss for year</b>			<b>(17,737)</b>

### 3 Exceptional items

	2010 £'000	2009 £'000
<b>Cost of sales</b>		
Impairment of intangible assets	-	(5,005)
Impairment of property, plant and equipment	-	(486)
Impairment of inventory	(1,214)	-
Employment termination and other restructuring costs	(2,533)	(1,236)
	<b>(3,747)</b>	<b>(6,727)</b>
<b>Administrative expense</b>		
Employment termination and other restructuring costs	(775)	-
	<b>(775)</b>	<b>-</b>
<b>Finance cost</b>	<b>(255)</b>	<b>-</b>
<b>Total exceptional costs</b>	<b>(4,777)</b>	<b>(6,727)</b>

#### *Year ended 30 April 2010*

Exceptional items in 2010 include £1,214,000 impairment of inventory, £3,308,000 restructuring costs, including employment termination costs and £255,000 transfer from translation reserve arising from disposal of group undertakings. There is a tax credit of £1,498,000 associated with exceptional costs.

#### *Year ended 30 April 2009*

Exceptional items in 2009 primarily relate to the impairment of previously capitalised research and development costs for minilab photo-processing equipment, reflecting the significantly reduced prospects for sales. In addition, a number of old silver halide digital printing kiosks have been impaired and certain spare parts connected with operating equipment previously impaired have also been written off as an exceptional item. There have also been a number of redundancies within the Group's Sales & Servicing division and an adjustment to costs relating to a termination effected in the prior year. There is a tax credit of £2,316,000 associated with the exceptional costs.

The total impairment on intangible assets for 2009 is £8,693,000 and includes £5,005,000 from continuing operations and £3,688,000 from discontinued operations.

### 4 Taxation on continuing operations

	2010 £'000	2009 £'000
<b>Current taxation</b>		
UK	-	309
Overseas	3,816	1,846
Prior year adjustments	(260)	(47)
	<b>3,556</b>	<b>2,108</b>
<b>Deferred taxation</b>		
Temporary differences	(849)	(3,079)
Prior year adjustments	(254)	(610)
	<b>(1,103)</b>	<b>(3,689)</b>
<b>Total tax charge/(credit)</b>	<b>2,453</b>	<b>(1,581)</b>

## 5 Discontinued operations

The discontinued operations in 2010 relate to the Group's wholesale lab business and in 2009 relate to both the Group's wholesale lab business and the Group's US Operations business. The results of the discontinued operations are as follows:

	Year to 30 April 2010 £'000	Year to 30 April 2009 £'000
Revenue	1,759	14,753
Operating profit/(loss)	7	(7,667)
Net finance (expense)/income	(1)	15
Profit/(loss) before tax	6	(7,652)
Tax (charge)/credit	(31)	770
Loss after tax	(25)	(6,882)
Valuation adjustment	-	(8,107)
Loss from discontinued operations pre-sale	(25)	(14,989)
Wholesale lab – profit on sale	3,052	-
US operations – profit on sale	-	815
Profit/(loss) from discontinued operations	3,027	(14,174)
Attributable to:		
Owners of the parent	3,027	(11,899)
Non-controlling interests	-	(2,275)
	3,027	(14,174)

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

During the year to 30 April 2010, there were no cash flows to report for discontinued operations, save the outflow on sale which is shown in the line, "(outflow)/proceeds from disposal of subsidiaries" in statement of cash flows.

## 6 Earnings/(loss) per share

	Year to 30 April 2010	Year to 30 April 2009
<b>Basic earnings/(loss) per share</b>		
Total	2.70p	(4.34p)
Continuing	1.86p	(1.03p)
Discontinued	0.84p	(3.31p)
<b>Diluted basic earnings/(loss) per share</b>		
Total	2.69p	(4.34p)
Continuing	1.85p	(1.03p)
Discontinued	0.84p	(3.31p)
<b>Alternative earnings/(loss) per share</b>		
Total	3.60p	(3.12p)
Continuing	2.76p	0.19p
Discontinued	0.84p	(3.31p)
<b>Diluted alternative earnings/(loss) per share</b>		
Total	3.58p	(3.12p)
Continuing	2.74p	0.19p
Discontinued	0.84p	(3.31p)

The calculation of earnings/(loss) per share is based on the following:

**Earnings attributable to ordinary shareholders (£'000)**

Total	<b>9,722</b>	(15,622)
Continuing	<b>6,695</b>	(3,723)
Discontinued	<b>3,027</b>	(11,899)

**Adjusted earnings/(loss) attributable to ordinary shareholders (£'000)**

Total	<b>12,951</b>	(11,211)
Continuing	<b>9,924</b>	688
Discontinued	<b>3,027</b>	(11,899)

**Weighted average number of shares in issue in the period:**

- basic ('000)	<b>359,892</b>	359,724
- including dilutive share options ('000)	<b>361,952</b>	359,724

Adjusted basic and diluted earnings/(loss) per share are calculated on the basis of earnings/(loss) before exceptional items. The Directors believe that disclosure of this measure allows shareholders to understand better the elements of financial performance during the year and to facilitate comparison with prior periods.

Alternative earnings/(loss) per share calculations

	2010				2009	
	Earnings £'000	Weighted average number of shares '000	Earnings per share pence	(Loss)/earnings £'000	Weighted average number of shares '000	Loss per share pence
Unadjusted earnings/(loss) per share	<b>9,722</b>	<b>359,892</b>	<b>2.70</b>	(15,622)	359,724	(4.34)
Impairment	<b>1,214</b>	<b>359,892</b>	<b>0.33</b>	5,491	359,724	1.52
Employment termination and other restructuring cost	<b>3,308</b>	<b>359,892</b>	<b>0.92</b>	1,236	359,724	0.34
Translation reserve arising on disposal of group undertakings	<b>255</b>	<b>359,892</b>	<b>0.07</b>	–	–	–
Tax impact	<b>(1,498)</b>	<b>359,892</b>	<b>(0.42)</b>	(2,316)	359,724	(0.64)
Minority interests	<b>(50)</b>	<b>359,892</b>	–	–	–	–
<b>Alternative basic earnings/(loss) per share</b>	<b>12,951</b>	<b>359,892</b>	<b>3.60</b>	(11,211)	359,724	(3.12)
<b>Alternative diluted adjusted earnings/(loss) per share</b>	<b>12,951</b>	<b>361,952</b>	<b>3.58</b>	(11,211)	359,724	(3.12)

**7 Dividends**

No dividends were paid in respect of the year ended 30 April 2009. An interim dividend for the year-ended 30 April 2010 0.25p per share was paid on 4 May. The directors have proposed a final dividend for the year-ended 30 April 2010 of 1.0p per share, payable on 5 November 2010, which is subject to shareholder approval at the annual general meeting to be held on 15 September 2010.

## 8 Non-current assets

	Goodwill	Intangible assets	Property, plant & equipment	Investment property
	£'000	£'000	£'000	£'000
Net book value at 1 May 2009	10,106	8,932	74,644	2,882
Exchange difference and other movements	(68)	(197)	(605)	(72)
Additions – photobooths and vending equipment	-	-	10,944	-
Additions – other assets	-	3,367	1,733	-
Amortisation	-	(2,258)	-	-
Depreciation	-	-	(26,332)	(588)
Disposals at net book value	-	(109)	(1,387)	-
<b>Net book value at 30 April 2010</b>	<b>10,038</b>	<b>9,735</b>	<b>58,997</b>	<b>2,222</b>

## 9 Net cash/(debt)

	2010 £'000	2009 £'000
Cash and cash equivalents per balance sheet	<b>41,916</b>	19,285
Financial assets – held to maturity	<b>570</b>	558
Bank overdrafts	<b>(2,120)</b>	(3,222)
Non-current instalments due on bank loans	<b>(17,013)</b>	(29,237)
Current instalments due on bank loans	<b>(14,231)</b>	(12,817)
Non-current finance leases	<b>(562)</b>	(374)
Current finance leases	<b>(483)</b>	(245)
Net cash/(debt) from continuing operations	<b>8,077</b>	(26,052)
Net cash from discontinued operations	-	2,553
Net cash/(debt) from continuing and discontinued operations	<b>8,077</b>	(23,499)

Net debt is a non-GAAP measure since it is not defined in accordance with IFRS but is a key indicator used by management in assessing operational performance and balance sheet strength. The inclusion of items in net debt as defined by the Group may not be comparable with other companies' measurement of net debt. The Group includes in net debt loan and other borrowings less cash and cash equivalents and certain financial assets, mainly deposits.

## 10 Publication of the audited financial statements

Copies of the Report and Accounts for the year ended 30 April 2010 will be mailed to shareholders by early August and will be available from the Company's registered office at Church Road, Bookham, Surrey KT23 3EU (telephone: 01372-453 399, fax: 01372-459 064, email: [ir@photo-me.co.uk](mailto:ir@photo-me.co.uk)) and the Company's website ([www.photo-me.co.uk](http://www.photo-me.co.uk)) after that date.