

Photo-Me

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14 December 2010

International Accounting Standards Board
30 Cannon Street
London EC4AM 6XH

Dear Sirs

Re: Exposure Draft Leases ED/2010/9 - Comments

Photo-me International plc (PMI) is a UK company quoted on the London Stock Exchange. PMI welcomes the opportunity to comment on the exposure draft ED/2010/9 Leases. PMI does have reservations with the current proposals and the potential impacts on our industry.

PMI is the world's leading operator of instant photobooths, with over 21,000 sited worldwide. PMI also operates a number of other non-attended vending machines, such as children's rides, instant print service machines, copiers, digital printing kiosks and photobook maker machines. The total number of sited vending machines worldwide is 44,000. The Group sites its equipment in a variety of locations, ranging from supermarkets, shopping centres, individual retail outlets, railway stations and underground stations, etc. The basic business model operated by the Company and the Group, is to pay commission at a percentage of revenues to each site owner, in return for the site owner's agreement that the Group may site its vending equipment. This model has been in place for more than 40 years and is well understood and accepted by all stakeholders.

Where PMI has specific difficulty with the exposure draft, and considers that other businesses which operate unattended vending equipment (such as drink and confectionery machines, gaming machines in public houses etc.) will be similarly impacted, is in the area of paying commission to a site owner, in return for the right to site vending equipment.

PMI notes that the exposure draft proposes to define a lease as a contract in which the right to use a specified asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration.

It is not clear from the Exposure Draft as to whether a commission site rental agreement is intended to be considered as a lease. Although at first sight this definition may cover the commission site rental agreements inherent in PMI's business model, PMI believes

that there are a number of distinguishing features, which are not found in “normal” lease agreements and accordingly considers that it should not account for such agreements as leases, as follows:

1. PMI’s agreements often allow the site owner to change the actual space occupied by the equipment within a specific premises, which distinguishes PMI’s site agreements from normal lease agreements.
2. Under a “percentage of revenue” siting agreement the site owner (lessor) receives a variable income dependent on revenues from the sited machine, unlike a conventional lease arrangement, where the income stream is substantially fixed.
3. PMI’s agreements with site owners may either be of fixed duration, or have no fixed length, in which case, the agreement could last for an indeterminate period. Additionally, both PMI and the site owner often have the right to terminate agreements early. In most conventional lease agreements there is a definite term, even if there is an option to extend beyond the primary period.
4. Whilst PMI’s agreements may follow a general pattern, each individual agreement is unique and with possibly as many as 10,000 agreements within the Group, to account for all these agreements as leases, will be unduly time consuming and extremely expensive to the Group. To evaluate the most likely period for which any agreement will be in place and the expected amount payable, as required under the proposed lease standard will be exceedingly complex and will inevitably require revisions at the next balance sheet date. We believe that the significant expense of undertaking this evaluation is not warranted and will not provide any significant benefit to our shareholders and stakeholders.
5. PMI considers the process will produce an unnecessary element of volatility in the income statement and statement of financial position. A relatively small change in expected revenues and consequently the commission paid for individual sites could have a disproportionate impact on the value of assets and liabilities at successive balance sheet dates and on the resultant charge or credit to the income statement.
6. PMI considers that such agreements are distinct from lease arrangements and as such should not be accounted for as if they were a lease, such as a property (finance) lease or (operating) lease for motor vehicles. In a finance lease arrangement the interest element can be ascertained. In PMI’s commission arrangement, the amount payable is generally variable. Reclassifying the commission payment to the site owner into a depreciation and interest element, as if the agreement was a lease, will be complex and PMI considers can be potentially misleading to investors, analysts and other stakeholders.

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7. Unlike property lease agreements, where it is possible to enter into a sub-lease arrangement, the "right to site equipment" granted by the site owner to PMI generally cannot be transferred or assigned.

8. Unlike property lease agreements, the commission payment to site owners also frequently covers various services such as the provision of electricity, buildings insurance, site staff support for security and breakdown calls and sometimes includes the coverage of business rates. As these costs are not split out in the agreements, this will add an additional level of complexity and subjective judgement to the accounting process, potentially involving each of our 44,000 vending machines sited around the world.

9. The Group's basic operating model is well understood by the tax authorities in the countries in which the Group operates. A change in the accounting methodology may not be accepted by these tax authorities, resulting in additional deferred tax implications for the Group's financial statements.

10. If such site owner agreements were to be brought onto the Company and Group's statements of financial position, the Company believes that this would distort and cause over-statement of the Company's and Group's assets and liabilities, which could have adverse consequences on the Group's ability to secure finance from lenders.

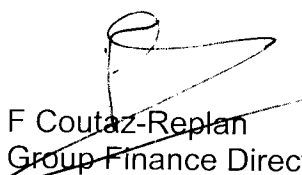
11. Due to the subjective nature of valuation methods that would be required in respect of our agreements with site owners, there is the likelihood that the site owners may adopt different valuation bases, such that "lessor" and "lessee" attribute substantially different values to the same "lease".


In summary there are a number of reasons why PMI considers that features in its site agreements enable the agreement to be readily distinguishable from lease agreements and as such should be accounted for separately from lease accounting. On behalf of itself, and potentially for the benefit of all the vending machine industry, PMI would therefore like to see a further clarification of the definition of a lease to ensure that these type of site agreements are specifically not captured by the proposed lease accounting requirements.

PMI requests that the Board gives due consideration to the situation affecting the Group. We would be willing to discuss this with you in further detail.

Thank you for your attention.

For and on behalf of Photo-Me International plc


F Coutaz-Replan
Group Finance Director


C. Holbrook
Group Chief Accountant