

PRESS RELEASE

TELEPHONETICS PLC

PRELIMINARY STATEMENT FOR THE YEAR ENDED 30 NOVEMBER 2007

Telephonetics plc ('Telephonetics' or 'the Group'), a leading provider of hosted and customer premises speech recognition and voice automation solutions, has today announced preliminary results for the year-ended 30 November 2007.

HIGHLIGHTS INCLUDE:

- Revenues up 48% at £9.67m (2006: £6.51m)
- Recurring revenues up 43% at £7.13m (2006: £4.98m) from hosted and service solutions
- Gross margin up 3 percentage points to 60% (2006: 57%)
- EBITDA before exceptional items and share option expenses up 26% at £0.933m (2006: £0.742m)
- Profit before tax before intangible asset amortisation, share option expenses and exceptional items up 16% to £0.677m (2006: £0.583m)
- Loss before tax increased to £0.92m (2006: £0.316m)
- On-going debt free balance sheet, with net funds at year-end of £4.03m (2006: £3.05m)
- 40 new customer deployments with total deployed systems 540 (2006: 500)

Mike Neville, Telephonetics' Chairman, commented:

"I am pleased to be announcing a strong set of preliminary results, which are ahead of expectations. It has been an immensely encouraging year, one in which we made excellent progress and stepped-up the business to the next level. Having achieved a 48% increase in revenues whilst maintaining a healthy level of underlying profit is no small achievement.

"As part of our growth strategy, Telephonetics has evolved to become a very different business to the one that reported its results one year ago. As we announced at the time, the integration of the VIP business had taken longer than expected, but during 2007 we have started to see the real benefits, coupled with positive results from our significant investment in sales and marketing.

"Along with winning contracts, we have also created a far more efficient business with improved gross margins. We are now well placed to build on the foundations we set down over the past year, in what is a far more attractive market environment, and drive this business forward."

OPERATING REVIEW

Telephonetics is pleased to announce a strong set of preliminary results. During 2007 we met and in certain areas were ahead of expectations.

Group turnover was £9.67m, an increase of 48% (2006: £6.51m); EBITDA before exceptional items and share option expenses was £0.993m, a 26% increase (2006: £0.742m); a margin of 10% of total turnover was broadly in line with 2006, a good result in light of significant upfront investment in expanding our sales & marketing teams. The Group is in a healthy cash position, having increased net funds by £0.979m to £4.03m (2006: £3.05m).

Profit before tax before intangible asset amortisation, share option expenses and exceptional items was up 16% to £0.677m (2006: £0.583m). While an increase in goodwill amortisation to £1.10m (2006: £0.458m) resulted in loss before tax and loss per share increasing to £0.92m (2006: £0.316m) and 0.81 pence (2006: 0.29 pence) respectively.

Hosted Solutions

During the period, turnover from our Hosted Solutions increased by 2% to £3.68m (2006: £3.61m). This is principally derived from our MovieLine[®] product, which is used by 80% of the UK's major multiplex cinemas (2006: 80%). While we experienced a small decrease in call volumes over the platform, this was offset by improved telecoms rates and other service fees.

Premises-based Solutions

Sales of speech recognition and voice automation premised based systems and associated services, covering the call centre, corporate, health and public sector, increased by 67% to £2.56m (2006: £1.53m). This included a number of significant contract wins with new customers such as Vanco, London Fire & Emergency Planning Authority, HM Treasury, New Forest District Council and Nabarro Nathanson.

Service & Maintenance Revenues

Service and maintenance revenues are important to the Group as they not only provide contractually recurring revenues but also reduce the cost of sale of additional applications to existing customers. This provides a solid foundation for the Group's future financial performance.

Service and maintenance revenues are now a significant element of our business mix, making up 36% of turnover (£3.43m), compared with 21% in 2006 (£1.37m). This was the result of new premises-based solution sales, the acquisition of VIP's customer base in July 2006 and expanded service offerings. The total number of deployments under contract at the year end was 540 (2006: 500).

Gross Margin

Gross margins were improved at 60% (2006: 57%), which was the result of higher margins on services & maintenance work, constituting a higher proportion of sales, and combined with the realisation of certain supply chain and service efficiencies.

Development costs

The Group has continued to invest in its product development with total development expenditure, including capitalised amounts, increasing by 5% to £0.626m (2005: £0.597m).

Our SEMAP+ platform and portfolio products continue to evolve to ensure they retain their current strong position in the market. Enhancements over the past year have included DialogueBuilder, an advanced web based tool that enables rapid deployment of customised speech, Touch Tone automated applications, and core speaker verification technology that automates caller authentication. Telephonetics is also well placed to take advantage of the increasing penetration of Voice Over Internet Protocol ('VoIP') PBXs in the market place. ContactPortal[®] has now successfully been tested against the latest Call Manager from Cisco, as well as the new Siemens 8000 IP PBX.

A new scalable and resilient mass outbound calling capability has been added to our platform, a system that enables rapid message delivery to vast numbers of recipients. The solution is flexible enough to satisfy customer demands, ranging from emergency notification and command and control, through to client interaction in the financial services space. New products released that use this new capability include Remind+, which is an automated notification solution that allows organisations, such as the NHS, to contact people and remind them they have an appointment in the near future and log their spoken responses, and enabling unused slots to be speedily reallocated.

Progress has been made at a platform level, with both premises-based and hosted offerings now sharing all core software elements. This enables the Group to offer a very high degree of flexibility to new customers and, additionally, provides a seamless technology transition for those existing customers wishing to move from a premises-based to a hosted environment, perhaps as part of a service centralisation initiative.

Sales & Marketing costs

A key objective for 2007 was to expand sales & marketing capabilities through greater investment in the direct sales team, indirect channel and product marketing. This has been successfully implemented and is starting to payoff in the top-line numbers. Expenditure on sales and marketing is £3.16m (2006: £1.23m), a significant increase of 157%, as we expanded the teams responsible for sales management, direct and indirect sales, telemarketing, sales operations, product marketing and marketing communications. Sales and marketing has grown from around 18 employees in 2006 to 40 during the period.

Administrative expenses

We continued to invest in improving internal processes in Human Resources, Sales, Product Management, IT, Finance, Administration, not only to increase our efficiency but also our management information and controls. General and administrative expenses were £1.58m before goodwill amortisation, exceptional items and share option expenses, which was an increase of 4%. This is an improved ratio of 16% of sales compared with 23% in 2006 and is the result of tighter cost control and operational leverage.

OUTLOOK

The Board of Telephonetics is confident that its longer-term growth strategy, which is targeting a wider customer base through more extensive application offerings run on our platform, as well as additional development of our existing customer base through incremental product features and additional applications, will soon start to pay off.

Telephonetics' focus will continue to build on the foundations that were laid in 2007. We will expand our marketing and development capabilities and introduce new products to market. We plan to continue to enhance our 3,000 line hosting platform, to build-upon the success of products such as MovieLine[®], and ensure customers have a choice of deployment model, as well as the ability to seamlessly transition from a premises-based to a hosted environment.

The outlook for the sector remains healthy. Companies are increasingly seeing the advantages of speech automation, especially in the current economic climate, as they continue to look for new ways to trim costs.

We have been seeing further sector consolidation, and although this has been mainly in the United States, we would not be surprised to see such moves in the European marketplace.

- ENDS -

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Consolidated profit and loss account for the year ended 30 November 2007

	Note	2007 Audited £'000	2006 Audited* £'000
Turnover		9,667	6,512
Cost of sales		(3,836)	(2,809)
Gross profit		5,831	3,703
Operating expenses	3	(6,890)	(4,124)
Operating loss		(1,059)	(421)
Operating loss analysed as:			
Operating profit pre-exceptional items, goodwill amortisation and share option expenses	3	504	458
Goodwill amortisation	3	(1,099)	(458)
Exceptional acquisition and restructuring costs	3	(291)	(295)
Share option expenses	3	(173)	(126)
		(1,059)	(421)
Bank interest receivable		142	108
Bank interest payable		(3)	(3)
Loss on ordinary activities before taxation		(920)	(316)
Tax credit on profit on ordinary activities		35	92
Loss on ordinary activities after taxation		(885)	(224)
Loss per share (pence)			
Basic	4	(0.81)	(0.29)

All amounts related to continuing operations and all gains and losses for this year and the prior year are recognised in the profit and loss account.

* as restated see note 2

Consolidated balance sheet as at 30 November 2007

	Note	2007 Audited £'000	2006 Audited* £'000
Fixed assets			
Intangible assets		9,589	10,598
Tangible assets		586	868
		10,175	11,466
Current assets			
Stock		249	289
Debtors		2,317	1,749
Cash at bank and in hand		4,028	3,049
		6,594	5,087
Creditors: amounts falling due in one year		(3,908)	(3,165)
Net current assets		2,686	1,922
Total assets less current liabilities			
		12,861	13,388
Creditors: amounts falling due after one year		(315)	(216)
Provisions for liabilities		(185)	(110)
Net assets		12,361	13,062
Capital and reserves			
Called up share capital	5	1,090	1,083
Share premium account	5	6,802	6,798
Reverse acquisition reserve	5	506	506
Merger reserve	5	4,951	4,951
Profit and loss account	5	(988)	(276)
Shareholders' funds	5	12,361	13,062

* as restated see note 2

Consolidated cash flow statement for the year ended 30 November 2007

	2007 Audited £'000	2006 Audited £'000
Net cash inflow from operating activities	1,066	644
Returns on investment and servicing of finance:		
Interest received	142	108
Interest paid	(3)	(3)
Net cash inflow from returns on investment and servicing of financing	139	105
Taxation	-	(52)
Capital expenditure and financial investment:		
Payments to acquire tangible fixed assets	(114)	(231)
Payments to acquire intangible fixed assets	(124)	(41)
Net cash outflow from capital expenditure and financial investment	(238)	(272)
Acquisition and disposals:		
Acquisition of subsidiary undertaking (net cash paid)	-	(5,193)
Net cash outflow from acquisitions and disposals	-	(5193)
Cash outflow/ (inflow) before financing	967	(4,768)
Financing:		
Issue of ordinary shares	-	5,250
Expenses paid in connection with share issue	-	(284)
Proceeds from exercise of share options	12	17
Cash inflow from financing	12	4,983
Increase in cash	979	215

Notes to the interim results

1. Basis of preparation

Extracts from Annual Report & Accounts

The consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement and extracts from the notes to the accounts do not constitute the Group's Annual Report & Accounts for the years ended 30 November 2007 or 2006, but is derived from them. Statutory accounts for 2006 have been delivered to the Registrar of Companies. The auditors have made a report on the Group's statutory accounts for the year ended 2007 and 2006 under section 235 of the Companies Act 1985 which does not contain a statement under sections 237(2) or (3) of the Companies Act and are unqualified. The statutory accounts will be filed with the Registrar in due course.

Copies of the Annual Report & Accounts will be posted to shareholders 24 March 2008. Further copies of this announcement can be downloaded from the website www.telephonetics.co.uk or by applications to The Company Secretary, Telephonetics Plc, Hamilton House, Marlowes, Hemel Hempstead, HP1 1BB.

2. Implementation of FRS 20 'Share based payments'

The Group has applied the requirements of FRS 20 "Share-Based Payments". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 December 2006.

The Group issues equity-settled share based payments to certain employees and directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes or Monte Carlo models as appropriate. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. A liability equal to the portion of goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

The effect of this change in accounting policy on the reported profit and loss has been an increase in general & administrative expense of £117,000 (2006: £89,000) and a reduction in the tax charge of £13,000 (2006: £30,000) as a result of the deferred tax asset arising on the FRS 20 charge. The impact on net assets was an increase of £33,000 at 30 November 2006.

3. Operating expenses

	2007 Audited £'000	2006 Audited* £'000
Operating expenses are analysed as:		
Research & development	592	496
Sales & marketing	3,158	1,231
General & administration	3,140	2,397
Analysed as:		
General & administration before exceptional items, goodwill amortisation and share option expenses	1,577	1,518
Goodwill amortisation	1,099	458
Exceptional acquisition and restructuring costs ⁽¹⁾	291	295
Share option expenses	173	126
	3,140	2,397
	4,035	3,930

* as restated see note 2

⁽¹⁾ With the acquisition of Voice Integrated Products Ltd in 2006 the Group inherited a number of leasehold properties in Poole. As part of the post acquisition integration on 1 April 2007 the Group vacated a number of these premises and a provision of £147,000 has been made for the residual lease commitments, together with outgoings, after taking into account management's estimate of possible sub-let income. In 2006, the Group incurred £295,000 of expenses in relation to the acquisition of Voice Integrated Products Ltd in July 2006 and its subsequent restructuring. Expenses included professional fees in connection with the pre-acquisition investigation and post-acquisition restructuring of £91,000, redundancy costs of £119,000 and transaction related emoluments of £85,000 (which are included in staff costs).

4. Loss per share

Loss per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial period and earnings, being profit/(loss) after tax.

	Note	2007 Audited £'000	2006 Audited* £'000
Reconciliation of earnings:			
Loss used for calculation of basic and diluted earnings per share		(885)	(224)
Goodwill amortisation		1,099	458
Exceptional acquisition and restructuring costs	3	291	295
Share option expense		173	126
Earnings used for calculation of adjusted basic and diluted earnings per share		678	655
Reconciliation of denominator:			
		Number	Number
Shares used for calculation of basic and diluted earnings per share		108,760,169	77,736,627
Exercise of share options		8,364,080	4,855,354
Shares used in calculation of diluted and adjusted earnings per share		117,124,249	82,591,981

* as restated see note 2

5. Reconciliation of movement in shareholders' funds

	2007 Audited £'000	2006 Audited* £'000
Loss for the financial period	(885)	(224)
New shares issued (net of costs)	11	5,232
Credit for share option expenses	173	133
Merger reserve arising on acquisition of subsidiary undertaking	-	4,951
Net addition to shareholders' funds	(701)	10,092
Opening shareholders' funds	13,062	2,970
Closing shareholders' funds	12,361	13,062

* as restated see note 2

6. Non-statutory figures

Analysis of turnover by type:

	2007 £'000	2006 £'000
Hosted Solutions	3,682	3,607
Premises-based Solutions	2,552	1,530
Services & Maintenance	3,443	1,375
Total	9,667	6,512

Reconciliation of EBITDA pre-exceptional items and share option charges to operating profit/ (loss):

	2007 £'000	2006 £'000
Operating loss	(1,059)	(421)
Share option expenses	173	126
Exceptional restructuring & acquisition costs	291	295
Depreciation	394	263
Amortisation of intangible assets	34	1
Loss on disposal	1	20
Goodwill amortisation	1,099	458
EBITDA pre-exceptional items	933	742

Reconciliation of Profit before tax, intangible asset amortisation, share option expenses and exceptional items to profit/ (loss) before taxation

	2007 £'000	2006 £'000
Profit/ (loss) before taxation	(920)	(316)
Share option expenses	173	126
Exceptional restructuring & acquisition costs	291	295
Amortisation of intangible assets	34	20
Goodwill amortisation	1,099	458
Profit before tax intangible asset amortisation and exceptional items	677	583