



TELEPHONETICS®

**Telephonetics Plc**  
**Unaudited interim results**  
**For the six months to 31 May 2006**

Telephonetics Plc ('Telephonetics' or the 'Company'), the UK-based automated telephony speech solutions group, has today announced interim results for the half year ended 31 May 2006.

**Highlights**

- Unaudited pro forma<sup>1</sup> revenues for the half-year up 18% to £5.62 million (reported revenues up 31% to £2.43 million)
- Unaudited pro forma profit before taxation and exceptional items up 121% to £947,000 (reported profit before taxation and exceptional items up 6% to £360,000)
- Acquisition of VIP for £11.3 million after period-end to strengthen Telephonetics' position as a market leader in speech-based telephony systems
- Ten-fold increase in customer base
- Annualised post acquisition cost savings of £907,000 already implemented

Mike Neville, Chairman, commented: "*Telephonetics has made an excellent start to 2006. During the first half we significantly increased revenues in our core businesses, won a stream of new contracts, introduced and developed new add-on products, and diversified our revenues. All this activity culminated in the acquisition of VIP in July to make us one of the UK's leading speech solutions provider. With rapid growth predicted for this market<sup>2</sup>, Telephonetics is ideally placed to capitalise on this growth with its increased product portfolio and additional sales and marketing presence.*"

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<sup>1</sup> The Company acquired Voice Integrated Products Ltd ('VIP') on 4 July 2006, after the interim balance sheet date, therefore pro forma results for the six months ended 31 May 2006 and 31 May 2005 are presented in note 7 to highlight the scale of the enlarged group. The pro forma results include the unaudited UK GAAP results of the group and management account figures for VIP assuming the results of VIP had been taken through the profit and loss account from 1 December 2004.

<sup>2</sup> Datamonitor estimates the sector will grow at an average compound growth rate (CAGR) of 25.8% to approximately £330 million by 2009 from approximately £142 million in 2005.

## **Business Review**

During the first six months to 31 May 2006, Telephonetics increased unaudited pro forma revenues by 18% to £5.62 million (2005: £4.78 million) and pro forma profit before taxation and exceptional items by 121% to £947,000 (2005: £428,000). The group has seen good growth in MovieLine®, our film booking and information Advanced Speech Recognition ('ASR') service, as well as a number of significant contract wins for our customer premises-based solutions.

Telephonetics' reported revenue increased by 31% to £2.43 million following good growth in both the group's main businesses. Pre-tax profits before exceptional items rose to £360,000 (2005: £341,000) despite an expected increase of £261,000 in administration costs following the group's admission to trading on AIM last year.

Pro forma operating cash flows increased by 87% to £1.50 million, which for both pro forma and on a reported basis was substantially ahead of operating profits as a result of advanced billings for maintenance and hosted service contracts. Pro forma cash levels stood at £4.75 million at the end of the period (2005: £1.48 million), of which approximately £2 million was utilised post-period on completion of the acquisition.

## **Acquisitions**

On 4 July 2006, Telephonetics completed the acquisition of Voice Integrated Products Ltd ("VIP"), one of the leading independent companies in the sector, for approximately £11.3 million, a move that has transformed the Company into one of the UK's leading automated telephony speech solutions provider. This has strengthened the Company's product offering and increased the customer base ten-fold. Many of the new clients are potential targets for cross-selling and upgrade opportunities. The acquisition also significantly strengthens the sales force with access to some excellent reseller channels including Siemens.

The business is now the only specialist speech provider to be accredited in the public sector and currently supplies over 152 health customers. We believe the opportunities for our products in the public sector are substantial.

The enlarged organisation has taken decisive and firm action since its inception; with a single management team in place we have already delivered a major restructuring whereby operations have been streamlined and a market driven product team established. A full business review is nearing completion which has resulted in a full product analysis and cessation of redundant technology development, identification of initial up-selling opportunities and preliminary marketing campaigns as well as a pricing strategy review.

Prior to completion of the VIP acquisition the Board estimated there were possible annual savings of approximately £800,000 from the combination of the businesses. The Board is pleased to announce that to date this figure has been exceeded with annualised cost savings of £907,000 already implemented and we have increased our estimate of possible annual savings to £1 million, in line with market estimates.

## **Customer Premises-based Solutions**

It has been a particularly strong first half for our customer premises-based solutions business. Pro forma revenues for premises-based solutions, which includes ContactPortal®, our virtual operator system, and the new VIP business, are up 18% to £3.76 million (and for the standalone Telephonetics business up 106% to £574,000).

During the half we have signed a number of significant new contracts with customers such as SunGard, Foster Wheeler, Slaughter & May and Freshfields. VIP also brings over 440 clients, including BAA and BHP Billington, and during the period delivered a £660,000 order for a major Telecoms company. In total we now have approximately 500 customers.

We have brought to market a number of new premises-based applications during the half, such as the self-service 'locator' application currently being deployed for Kenwood, the houseware and kitchen appliance business. This generic application allows callers to search for the nearest Kenwood service centre, by means of speech recognition.

As previously announced, the group has sought to create a more balanced revenue mix, between its hosted services (MovieLine) and the premises-based solutions, such as ContactPortal. This has been successfully achieved, with premises-based solutions now accounting for 67% of the total pro forma revenues, compared with only 15% one year ago on a standalone basis and MovieLine call and transaction revenues accounting for 21% of the total pro forma revenues compared with 49% one year ago on a standalone basis.

The premises-based solutions business continues to grow as the group makes further inroads into the corporate sector, as well as expanding in existing sectors such as health, local government and financial services. We are also seeing premises-based solutions customers looking at hosted services for certain applications and we therefore expect to be offering a range of new hosted services over the course of the next financial year aimed at both the corporate and public sectors.

### **Hosted Solutions**

MovieLine revenues increased by 17% to £1.858 million as a result of increased call volumes over the platform, up 19% to 15.8 million minutes, and an 8% increase in inbound call rates received from the Group's telecoms suppliers.

Telephonetics has further strengthened its position in the UK's cinema market with Cineworld Cinemas Ltd extending Telephonetics' ASR booking and information technology to all 78 of their UK and Irish sites, in an enlarged deal worth approximately £8.2 million over six years. Once the expanded service goes live, Telephonetics will provide ASR technology to 80% of the UK's major multiplex market, up from 63% one year ago.

On the international stage, the Company has expanded its presence in Ireland, with a number of new contracts, including SG Cinemas and Movies@ each installing the MovieLine film booking speech recognition service. The deals are on five-year contracts and will generate six figure revenues for the Company over the period.

Telephonetics continues to develop new services for MovieLine and during the period launched MovieLine Agent Interface software, an intelligent call-centre application that seamlessly links MovieLine's ASR booking service with a new call-centre operation provided by Telephonetics. Cineworld was the first to sign-up to the service.

We have also successfully integrated MovieLine with Radiant Systems, one of the top suppliers of ticketing systems to the US cinema market, where they have over 100 customers in the entertainment sector, and gone live with the first Apollo cinema sites.

### **Development**

Following the VIP acquisition, there will be much greater emphasis on product development. As a result of the transaction the combined development expenditure for the period was £524,000 in comparison to £174,000 one year ago on a standalone basis. Whilst there was overlap in the development teams, which has now been removed, the group still has a significantly bigger development team than before to enable it to enhance the breadth and depth of our solutions across both hosted and premises-based solutions.

**Outlook**

Speech technology and solutions are continuing to generate increasing customer interest with speech-based self-service applications being a key driver. The pipeline of new business continues to be strong in the second half, although the full year results will depend on the timing of orders and their implementation.

The integration of VIP is ahead of schedule and we have identified significant opportunities to expand Telephonetics' business solutions and channels over the course of the year. As we continue to integrate marketing activities, we should start to see additional revenues from new cross-selling opportunities, as well as the benefits from non-staff cost savings over the next year.

We continue to look for new ways to penetrate untapped sectors and the international markets for our MovieLine platform and look forward to the future with confidence.

**- Ends -**

## Consolidated profit and loss account for the six months ended 31 May 2006

	Note	6 months ended 31 May 2006 unaudited £'000	6 months ended 31 May 2005 unaudited £'000	Year ended 30 Nov 2005 audited £'000
<b>Turnover</b>		<b>2,432</b>	<b>1,860</b>	<b>4,443</b>
Cost of sales		(1,160)	(860)	(1,960)
Gross profit		1,272	1,000	2,483
Operating expenses	2	(975)	(668)	(3,930)
<b>Operating profit/(loss)</b>		<b>297</b>	<b>332</b>	<b>(1,447)</b>
<b>Operating profit/(loss) analysed as:</b>				
Operating profit pre-exceptional items	2	307	332	888
Exceptional goodwill impairment	2	-	-	(2,043)
Exceptional share option expenses	2	(10)	-	(292)
Interest receivable		54	10	46
Interest payable		(1)	(1)	(2)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>350</b>	<b>341</b>	<b>(1,403)</b>
Taxation on profit on ordinary activities		(80)	(41)	(36)
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>270</b>	<b>300</b>	<b>(1,439)</b>
<b>Earnings/ (loss) per share (pence)</b>				
Basic	3	0.48	0.69	(2.96)
Basic – adjusted	3	0.50	0.69	1.85
Diluted	3	0.44	0.60	(2.67)
Diluted – adjusted	3	0.46	0.60	1.67

The profit and loss account contains all recognised gain and losses for the period and preceding periods.

## Consolidated balance sheet as at 31 May 2006

	Note	6 months ended 31 May 2006 unaudited £'000	6 months ended 31 May 2005 unaudited £'000	Year ended 30 Nov 2005 audited £'000
<b>Fixed assets</b>				
Intangible assets		49	25	42
Tangible assets		608	569	593
		<b>657</b>	<b>594</b>	<b>635</b>
<b>Current assets</b>				
Stock		52	45	109
Debtors		1,211	792	1,279
Cash at bank and in hand		3,427	1,010	2,834
		<b>4,690</b>	<b>1,847</b>	<b>4,222</b>
Creditors: amounts falling due in 1 year		(1,915)	(1,083)	(1,681)
<b>Net current assets</b>		<b>2,775</b>	<b>764</b>	<b>2,541</b>
<b>Total assets less current liabilities</b>		<b>3,432</b>	<b>1,358</b>	<b>3,176</b>
Creditors: amounts falling due after 1 year		(104)	-	(126)
Provisions for liabilities and charges		(71)	(89)	(83)
<b>Net assets</b>		<b>3,257</b>	<b>1,269</b>	<b>2,967</b>
<b>Capital and reserves</b>				
Called up share capital	4	566	433	563
Share premium account	4	2,088	-	2,086
Reverse acquisition reserve	4	506	(432)	506
Profit and loss account	4	97	1,268	(188)
<b>Shareholders' funds</b>	<b>4</b>	<b>3,257</b>	<b>1,269</b>	<b>2,967</b>

## Consolidated cash flow statement for the six months ended 31 May 2006

	Note	6 months ended 31 May 2006 unaudited £'000	6 months ended 31 May 2005 unaudited £'000	Year ended 30 Nov 2005 audited £'000
<b>Net cash inflow from operating activities</b>	5	<b>660</b>	<b>627</b>	<b>1,499</b>
<b>Returns on investment and servicing of finance:</b>				
Interest received		54	10	46
Interest paid		(1)	(1)	(2)
<b>Net cash inflow from returns on investment and servicing of financing</b>		<b>53</b>	<b>9</b>	<b>44</b>
<b>Taxation</b>		-	-	<b>(33)</b>
<b>Capital expenditure and financial investment:</b>				
Purchase of tangible fixed assets		(110)	(62)	(197)
Sale of tangible fixed assets		-	6	6
Purchase of intangible fixed assets		(15)	(26)	(47)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(125)</b>	<b>(82)</b>	<b>(238)</b>
<b>Acquisition and disposals:</b>				
Reverse acquisition of parent undertaking		-	-	(201)
<b>Cash inflow before financing</b>		<b>588</b>	<b>554</b>	<b>1,071</b>
<b>Financing:</b>				
Issue of ordinary shares		-	-	1,500
Expenses paid in connection with share issue		-	-	(217)
Proceeds from exercise of share options		5	-	24
<b>Cash inflow from financing</b>		<b>5</b>	<b>-</b>	<b>1,307</b>
<b>Increase in cash</b>		<b>593</b>	<b>554</b>	<b>2,378</b>

## Notes to the interim results

### 1. Basis of preparation

The financial statements for the six months ended 31 May 2006 have been prepared using accounting policies consistent with those set out in the Company's 2005 annual report and accounts. These statements do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 and are unaudited.

Financial information for the six months ended 31 May 2006 and 31 May 2005 has been extracted from the accounting records of the Group. The balances as at 30 November 2005 and the results for the year then ended have been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

The results for the six months ended 31 May 2006 were approved by the Board on 30 August 2006 and are available on the Company's web site [www.telephonetics.co.uk](http://www.telephonetics.co.uk) from 31 August 2006.

### 2. Operating expenses

	Note	6 months ended 31 May 2006 unaudited £'000	6 months ended 31 May 2005 unaudited £'000	Year ended 30 Nov 2005 audited £'000
<b>Operating expenses are analysed as:</b>				
Research & development		189	174	396
Sales & marketing		234	213	467
General & administration		552	281	3,067
<b>Analysed as:</b>				
General & administration before exceptional items		542	281	732
Exceptional goodwill impairment		-	-	2,043
Exceptional share option expenses		10	-	292
		<b>975</b>	<b>668</b>	<b>3,930</b>

Exceptional items within operating profit are:

Goodwill of £2,043,000 arising on the reverse acquisition of Leptis Magna Plc in July 2005 was impaired in the year ended 30 November 2005 as Leptis Magna, a cash shell company, had no continuing business and therefore the goodwill had no intrinsic value.

On completion of that reverse acquisition share options were issued to certain directors at prices ranging from 1.0 pence to 22.0 pence compared to a market price at that time of 36.0 pence. As a result charges of £10,000 and £292,000 have been made to the profit and loss account in the 6 months ended 31 May 2006 and 30 November 2005 respectively in accordance with UITF17 together with a provision for national insurance contributions.

### 3. Earnings per share

Earnings 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 and minority interests.

	Note	6 months ended 31 May 2006 unaudited £'000	6 months ended 31 May 2005 unaudited £'000	Year ended 30 Nov 2005 audited £'000
Reconciliation of earnings:				
Earnings used for calculation of basic and diluted earnings per share		270	300	(1,439)
Exceptional goodwill impairment	2	-	-	2,043
Exceptional share option expense	2	10	-	292
<b>Earnings used for calculation of adjusted basic and diluted earnings per share</b>		<b>280</b>	<b>300</b>	<b>896</b>
		6 months ended 31 May 2006 unaudited Number	6 months ended 31 May 2005 unaudited Number	Year ended 30 Nov 2005 audited Number
Reconciliation of denominator:				
Shares used for calculation of basic and diluted earnings per share		56,506,117	43,333,334	48,560,071
Exercise of share options		4,916,758	6,668,695	5,358,602
<b>Shares used in calculation of diluted and adjusted earnings per share</b>		<b>61,422,875</b>	<b>50,002,029</b>	<b>53,918,673</b>

### 4. Reconciliation of movement in shareholders' funds

	6 months ended 31 May 2006 unaudited £'000	6 months ended 31 May 2005 unaudited £'000	Year ended 30 Nov 2005 audited £'000
Profit/ (loss) for the financial period	270	300	(1,439)
New shares issued	5	-	2,216
Credit for share option expenses	15	-	284
Capital adjustment for reverse acquisition accounting	-	-	937
Net addition to shareholders' funds	290	300	1,998
Opening shareholders' funds	2,967	969	969
<b>Closing shareholders' funds</b>	<b>3,257</b>	<b>1,269</b>	<b>2,967</b>

## 5. Net cash inflow from operating activities

	Note	6 months ended 31 May 2006 unaudited £'000	6 months ended 31 May 2005 unaudited £'000	Year ended 30 Nov 2005 audited £'000
Operating profit/ (loss)		297	332	(1,447)
Depreciation charge (gross of loss on disposals)		95	91	202
Intangible asset amortisation charge		8	1	5
Exceptional goodwill impairment	2	-	-	2,043
Exceptional share option expense	2	15	-	292
Decrease/ (Increase) in stock		57	(45)	(109)
Decrease/ (Increase) in debtors		68	(279)	(756)
Increase in creditors		120	527	1,269
<b>Net cash inflow from operating activities</b>		<b>660</b>	<b>627</b>	<b>1,499</b>

## 6. Post balance sheet events

On 4 July 2006 the Company acquired Voice Integrated Products Ltd ('VIP') and raised £5.25 million (£5.0 million net of expenses) by way of a placing of 26,250,000 new ordinary shares of 1p each at 20p per share. The gross consideration for the acquisition totalled £11.3 million, consisting of £5.9 million cash, the allotment and issue of 24,757,332 new ordinary shares of 1p each issued at 20p each, and approximately £0.4 million transaction expenses.

On 4 August 2006 the Company issued 633,334 new ordinary shares of 1p each under its Enterprise Management Incentive Share Option Scheme at an exercise price of 1.8947p each.

## 7. Reconciliation of pro forma and interim financial statements

The Company acquired VIP on 4 July 2006, after the interim balance sheet date. Therefore pro forma results for the six months ended 31 May 2006 and 31 May 2005 have been presented to highlight the scale of the enlarged group. The pro forma results include the unaudited UK GAAP results of the group and management account figures for VIP assuming the results of VIP had been taken through the profit and loss account from 1 December 2004. The table below sets out a reconciliation of pro forma and reported results:

	6 months ended 31 May 2006 unaudited £'000	6 months ended 31 May 2005 unaudited £'000	Year ended 30 Nov 2005 unaudited £'000
Turnover:			
Telephonetics Plc	2,432	1,860	4,443
Voice Integrated Products Ltd	3,185	2,915	5,289
Total	5,617	4,775	9,732
Operating profit before exceptional items:			
Telephonetics Plc	307	332	888
Voice Integrated Products Ltd	576	77	115
Total	883	409	1,003
Profit before taxation and exceptional items:			
Telephonetics Plc	360	341	932
Voice Integrated Products Ltd	587	87	134
Total	947	428	1,066
Operating cash flow:			
Telephonetics Plc	660	627	1,499
Voice Integrated Products Ltd	938	176	373
Total	1,499	803	1,872
Cash at hand and in bank:			
Telephonetics Plc	3,427	1,010	2,834
Voice Integrated Products Ltd	1,325	472	653
Total	4,752	1,482	3,487