

PRESS RELEASE

26 February 2009

Telephonetics Plc

Unaudited preliminary results For the year ended 30 November 2008

Telephonetics Plc ('Telephonetics' or the 'Company' or the 'Group'), a leading speech recognition and voice automation specialist, today announces its preliminary results for the year ended 30 November 2008.

Highlights

- Revenues increased by 3% to £9.95m (2007: £9.67m)
- Gross margin up 1 percentage point to 61% (2007: 60%)
- Operating profit of £0.87m (2007: £nil)
- Profit before tax of £1.07m (2007: £0.14m)
- Earnings per share 0.87p (2007: 0.17p)
- Cash generated from operations up 39% to £1.56m (2007: £1.12m)
- Debt free with net cash of £5.39m (2007: £4.03m)
- Twenty five new customers acquired
- New partnerships agreements increase presence in the public sector
- Total assets of £19.7m (2007: £17.9m)
- Total equity of £14.4m (2007: £13.4m)

Mike Neville, Chairman of Telephonetics, commented:

"Telephonetics has completed another growth year, delivering a record financial performance. The Group is establishing itself as a supplier of choice in the growing public sector market place which now accounts for over 50% of Group revenue. Combined with its strong cash position and robust customer and partner network, Telephonetics is well positioned to weather the uncertainty of the current economic climate and generate further shareholder value as we move forward in 2009."

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Operating Review

Telephonetics is delighted to announce record preliminary results following a year of significant progress. The Group achieved record revenues and moved into operating profit for the first time. With strong cash generation and a debt free balance sheet, the Group is well positioned to maximise any future opportunities.

Group turnover was £9.95m, an increase of 3% (2007: £9.67m); operating profit was £0.87m (2007: £nil). Profit before tax increased significantly from £0.14m in 2007 to £1.07m and earnings per share also increased from 0.17p to 0.87p. The Group's cash position remains strong; cash generated from operations was up 39% to £1.56m (2007: £1.12m) and we have net cash of £5.39m (2007: £4.03m). We have also further reduced the significance of MovieLINE® revenue to the Group as a result of continued focus on provision of packaged applications primarily to the public sector.

Packaged Applications

Sales of our packaged speech recognition and voice automation applications and associated services covering the health, public and corporate sectors increased by 5% to £6.27m (2007: £5.97m). This increase in revenues is the result of cross selling applications into the Group's customer base, together with an increase in the value of the applications supported under contract. The proportion of recurring revenues under service contracts is 57% providing the Group with good visibility of earnings.

The attractiveness of Telephonetics' applications is reflected in the fact that 58% of NHS acute trusts in England use our platform and we are in a good position in Scotland and Wales. Telephonetics continues to be well represented across other areas of the public sector. In the UK our platform is used by 12% of all councils (district, metropolitan, city, borough or unitary), 21% of all higher education institutions and 20% of all police forces. Twenty five new customers were signed up during the year including North Middlesex University Hospital, Royal Brompton Hospital, Derby City General Hospital, Guys and St Thomas Hospital, London & Quadrant Housing Association, the Department of Health, Essex Police and Midlothian Council.

Managed Services

Managed service revenues were flat at £3.68m (2007: £3.69m). Revenue is principally derived from our MovieLINE® product which is used by 80% of the UK's major multiplex cinemas. A decrease in call volumes over the year reflects a continuing trend towards internet ticket bookings, however this was offset by fees earned from a one-off professional service project over the period. The Telephonetics board of directors (the 'Board') continues to anticipate that MovieLINE® will represent a decreasing percentage of the business mix in future periods.

Gross margin

We have maintained gross margin percentage at a healthy 61% (2007: 60%).

Research and development

The Group continues to invest in its product development with total development expenditure including capitalised amounts of £0.83m (2007: £0.72m) of which £0.22m (2007: £0.12m) was capitalised.

During the year our development team worked on seven new packaged applications, all of which operate on our Speech Enabled Multi-Application Platform (SEMAP+). These

have now been released to market and we have already built a pipeline for these products.

Of particular note are our multi-channel interactive outbound notification products Confirmer and Remind+. These products are aimed primarily at the Health and Public Sector market. We currently have a major deployment of Remind+ being rolled out across 48 departments in a major teaching hospital where it is expected to transform the hospital's Did-Not-Attend (DNA) figures and thus reduce costs and improve patient care.

The development team has also integrated our popular Automatic Call Distribution product into Lagan's Enterprise Case Management System – a product installed at over 100 local authorities. This will help strengthen our proposition in local government where we are already seeing strong interest in our most recently released products.

Sales and marketing expenses

Expenditure on sales and marketing decreased by £0.16m to £3.03m (2007: £3.19m) due to timing differences following the departure of two senior executives who were not immediately replaced. Nonetheless, the Group is dedicated to building the marketing expertise within the business and we will continue to invest in marketing to maximise the revenues and opportunities from our product portfolio.

General and administrative expenses

General and administrative expenses before restructuring costs decreased by 5% to £1.66m (2007: £1.75m) as the Group benefited from the final stages of the integration of Voice Integrated Products Ltd undertaken in 2007.

In May 2008, the Group reorganised its leasehold property and terminated various leases earlier than expected. As a result £80,000 of property provisions were surplus and credited back to the income statement as a restructuring credit.

Cash flows

The Group continues to generate significant cash and has a robust balance sheet that is debt free and with net cash position of £5.39m (2007: £4.03m). The cash generated during the year was up 39% to £1.56m (2007: £1.12m).

Cash spent on investing activities totalled £0.44m (2007: £0.24m) principally comprising amounts spent on development expenditure and purchase of software for use within the business.

Market & Strategy Update

Whilst the UK economy as a whole is currently suffering, the brunt of this has fallen on the commercial sector. The public sector has been less affected and it is this segment of the market where our business is primarily focussed. In 2008 the Group made a strategic decision to concentrate more effort on the health and public sector markets with an emphasis on extending both the breadth and depth of our engagement with customers in these sectors.

Public sector organisations have been tasked with providing more services to the public, at higher levels of quality, whilst at the same time reducing costs. Our core solutions, based around the SEMAP+ platform, have been designed to achieve these very goals. By focusing on the effective handling of inbound and outbound calls via our "automation agent" technology, and using natural speech recognition to interact with the caller, we

enable our clients to satisfy more of their customers' needs and target those who need special attention.

At the same time our platform allows customers to leverage their technology investment through the shared platform approach. This strategy enables us to maintain our position as a supplier of choice in our core markets of health and public sector with long term customer relationships and at the same time ensures a diversity of revenue base so that we are not dependent on any one sector.

The other strategic decision made by the Group has been to avoid bespoke application developments as this has been shown, by other companies operating within our space, to provide volatile revenues and significantly lower margin.

We are actively seeking to develop alliances with other vendors where they can help increase our penetration into core markets. Our announcements with Lagan, ONI, Freedom and Siemens over the last year are good examples of progress made on this front. The approach to our alliances varies from straight product bundling to complex product integration.

We have aggressive targets to increase our share in core markets over the next three years and we will look increasingly at providing complete end-to-end solutions that help our clients interact with their customers. This will extend our functionality beyond that of pure front-end telephony solutions to include web interactions, business process management and other technologies which help us provide a one-stop-shop to match the needs of our customers. We will become increasingly solution-centric rather than product-centric.

Research and development will be focussed on ensuring that we continue to deliver sophisticated, relevant solutions which not only solve more and more of our customers' problems but which are also superior to those of our competitors. They will also be encouraged to experiment with new approaches and technologies to help ensure we continue to innovate and lead the way in our core markets.

Datadialogs

On 9 February 2009 the Company announced the acquisition of Eden Origin Ltd ("Eden"), trading as Datadialogs, the specialist provider of codeless Enterprise Application Integration ("EAI"), Business Process Management ("BPM") and Mashup Solutions.

Eden's solutions give customers the ability to create and deploy business solutions rapidly without the need to develop code. Eden solutions created in this way can integrate in real-time with virtually any existing IT infrastructure. This allows Eden to bring together disparate systems into a single unified environment very quickly, thereby streamlining user access and process. Eden's products are well regarded in the public sector and manufacturing and distribution sectors, where customers include Kier Group, Affinity Sutton, Morrison Facilities Services, Comet and Bournemouth & Hampshire Water. It has partnerships with Civica, Differentia Consulting and Sphere IT that provide established routes to market.

The acquisition of Eden aligns with the Group strategy to provide complete solutions for effective customer interaction. Whilst our existing solutions have focused primarily at the front-end of the interaction i.e. interfacing with the customer, Eden works "behind the scenes" at the back-end of the transaction, providing seamless integration with existing systems and business processes.

Combining the two technologies will allow us to build solutions that have access to more data, and can therefore offer more functionality, all in a much shorter timescale due to the codeless nature of Eden. Furthermore, Eden's ability to work directly with both legacy and emerging systems means that our customers will receive immediate benefits without the need for any infra-structure change.

In the public sector, where there is a drive for single view and shared services, Eden can sit at the core of the business to help achieve these goals. Telephonetics automation agents then naturally benefit in exactly the same way as live agents i.e. fewer screens to navigate and access to more information, more easily without the need to search elsewhere. The end result is a smoother customer interaction, with fewer touch-points, completed more efficiently and therefore at lower cost.

Outlook

Despite the weak economic outlook for the UK, the Board believes the Group has a portfolio of products and solutions that are well matched to the needs of its core markets where funding has not, to date, been an issue. Assuming this situation remains the case, the Board is cautiously optimistic that it can continue to gain market share and increasingly dominate those sectors in which the Group operates.

Investment has always been a high priority for the business in order to drive our growth, and we will continue in this vein moving forward. In Technology we realise the importance of ongoing research and development to ensure that we continue to provide a best of breed solution. In Customer Services we seek excellence in all interactions with our customers, particularly as the current climate forces them to select suppliers who are stable, reliable and helpful. In Sales and Marketing we focus on quality staff, with quality support and encourage a relationship-building approach. These strategic investments will develop our long-term revenues, build our customer base and in the process increase shareholder value.

The Board feels that this is an ideal time to capitalise both on the strengths of Telephonetics as well as to take advantage of the weakness of our competitors. It has therefore recommended making significant investment in additional marketing to include a number of carefully selected customer acquisition opportunities. Whilst this strategy is expected to reduce short-term profitability, investors should see an increase in market share as Telephonetics continues to expand its customer base in these markets and thereby signs up long-term contracts with consequent improved revenue visibility. As the economy comes out of recession the Board believes that Telephonetics should have significantly strengthened its market leadership position.

Audited consolidated income statement for the year ended 30 November 2008

	2008	2007
	£'000	£'000
Revenue	9,951	9,667
Cost of sales	(3,865)	(3,846)
Gross profit	6,086	5,821
Administrative expenses	(5,220)	(5,821)
Profit from operations	866	-
Profit from operations analysed as:		
Profit from operations before restructuring credit/ (costs)	786	291
Restructuring credit/ (costs)	80	(291)
	866	-
Finance expense	(3)	(3)
Finance income	208	142
Profit before tax	1,071	139
Tax (expense)/ credit	(120)	42
Profit for the year	951	181
Earnings per share		
Basic - pence	0.87	0.17
Diluted - pence	0.80	0.16

Audited consolidated balance sheet as at 30 November 2008

	2008 £'000	2007 £'000
Assets		
Non-current assets		
Property, plant & equipment	269	322
Intangible assets	11,093	10,952
Deferred tax assets	33	73
Total non-current assets	11,395	11,347
Current assets		
Inventories	335	249
Trade & other receivables	2,536	2,245
Corporation tax receivable	-	33
Cash & cash equivalents	5,389	4,028
Total current assets	8,260	6,555
Total assets	19,655	17,902
Liabilities		
Current liabilities		
Trade & other payables	5,149	4,322
Corporation tax liability	81	-
Provisions	6	60
Total current liabilities	5,236	4,382
Non-current liabilities		
Provisions	49	125
Total non-current liabilities	49	125
Total liabilities	5,285	4,507
Net assets	14,370	13,395
Capital & reserves		
Share capital	1,090	1,090
Share premium	6,803	6,802
Reverse acquisition reserve	506	506
Merger reserve	4,951	4,951
Retained earnings	1,020	46
Total equity	14,370	13,395

Audited consolidated statement of changes in equity as at 30 November 2008

	Share capital	Share premium	Reverse acquisition reserve	Merger reserve	Retained (deficit)/ earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 December 2006	1,083	6,798	506	4,951	(308)	13,030
Profit for the year	-	-	-	-	181	181
Total recognised income and expense	-	-	-	-	181	181
Share based payment credit	-	-	-	-	173	173
Issue of share capital	7	4	-	-	-	11
Balance at 30 November 2007	1,090	6,802	506	4,951	46	13,395
Balance at 1 December 2007	1,090	6,802	506	4,951	46	13,395
Profit for the year	-	-	-	-	951	951
Total recognised income and expense	-	-	-	-	951	951
Share based payment credit	-	-	-	-	23	23
Issue of share capital	-	1	-	-	-	1
Balance at 30 November 2008	1,090	6,803	506	4,951	1,020	14,370

Audited consolidated cash flow statement for year ended 30 November 2008

	2008 £'000	2007 £'000
Cash flow from operating activities		
Profit for the year	951	181
Adjustments for:		
Depreciation	149	259
Loss on disposal of property, plant & equipment	18	-
Amortisation	188	170
Finance income	(208)	(142)
Finance expense	3	3
Share-based payment expense	23	173
Income tax expense/ (credit)	120	(42)
Operating cash flows before movements in working capital & provisions	1,244	602
(Increase)/ decrease/ in inventories	(86)	42
(Increase) in trade and other receivables	(291)	(503)
Increase in trade and other payables	827	882
(Decrease)/ increase in provisions	(236)	98
Cash generated from operations	1,564	1,121
Interest paid	(3)	(3)
Interest received	208	142
Corporation tax reclaimed/ (paid)	34	(52)
Net cash flow from operating activities	1,803	1,208
Investing activities		
Purchase of property, plant & equipment	(114)	(71)
Development expenditure	(216)	(124)
Purchase of other intangible assets	(113)	(45)
Net cash used in investing activities	(443)	(240)
Financing activities		
Issue of ordinary shares	1	11
Net cash from financing activities	1	11
Net increase in cash & cash equivalents	1,361	979
Cash & cash equivalents at the beginning of the year	4,028	3,049
Cash & cash equivalents at the end of the year	5,389	4,028

Notes to the financial information for the year ended 30 November 2008

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 2008 or 2007, but is derived from them. Statutory accounts for 2007 have been delivered to the Registrar of Companies. The auditors have made a report on the Group's statutory accounts for the year ended 2008 and 2007 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 consolidated financial statements of Telephonetics Plc were approved by the directors on 25 February 2009. The statutory accounts will be filed with the Registrar in due course.

Copies of the Annual Report & Accounts will be posted to shareholders on 19 March 2009. 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.

International Financial Reporting Standards

Prior to 2008 the Group prepared its audited financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). For the year ended 30 November 2008 the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU ('EU IFRS'). As a consequence, these results have been prepared using the recognition and measurement principles of EU IFRSs. The principal accounting policies used in preparing these results together with details of the affect of adopting EU IFRSs on the Group's income statement and balance sheet were included in its interim result statement announced on 21 August 2008.

2. Operating expenses

	2008 Audited £'000	2007 Audited £'000
Operating expenses are analysed as:		
Research & development	610	594
Sales & marketing	3,026	3,188
General & administration	1,584	2,039
Analysed as:		
General & administration before restructuring (credit)/ expense	1,664	1,748
Restructuring (credit)/ expense	(80)	291
	1,584	2,039
	5,220	5,821

The Group completed the final integration restructuring of Voice Integrated Products Limited in 2007 resulting in a charge for that year of £291,000. That expense consisted of a provision of £147,000 for vacant premises and £144,000 of redundancy costs. In May 2008 the Group reorganised its leasehold property and terminated various leases earlier than expected, as a result £80,000 of the vacant property provision was surplus and has been credited back to the income statement in the year.

3. Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue is 109,010,585 (2007 – 108,760,169) and the earnings used is profit after tax being £951,000 (2007 - £184,000).

	2008 Audited Number	2007 Audited Number
Reconciliation of denominator:		
Weighted average number of shares used for the calculation of basic earnings per share	109,010,585	108,760,169
Effect of dilutive ordinary shares options being exercised	9,741,928	8,364,080
Weighted average number of shares used for the calculation of diluted earnings per share	118,752,513	117,124,249