PATIENTLINE PLC

Preliminary announcement of results for the year ended 25 March 2005

Financial Highlights

- Revenue increased by 33% to £49.4m year on year
- EBITDA up 82% to £16.4m year on year
- Operating cash flow up 115% to £16.7m year on year

Operational Highlights

- 17,300 terminals switched on
- 73,000 terminals now operational at 151 UK hospitals
- US - three live sites - strong interest in purchase of Terminals

	2003/2004	**2004/2005**
Revenue	£37.2 million	£49.4 million
EBITDA	£9.0 million	£16.4 million
Terminals installed	20,600	17,300
Hospitals in operation	120	151
Total Hospitals under contract / preferred supplier	179	194

Commenting on the preliminary results, Derek Lewis, Chairman of Patientline, said:

'The tenth year of operation since our first live hospital has been a notable one. The drive to sign up UK hospitals is now largely complete and, following the announcement that our rate of installation would halve this year, we have shifted our focus to productivity improvement and the generation of both cash and profits.

'In the now substantial number of operational hospitals, we saw mature sites generating higher revenues.

'The Dutch business had another good year and won its first Terminal 2 contract for clinical access. In the US we have won a further high profile contract, signed a distribution agreement with Compucom and appointed a US CEO to continue to build our business there.

'In the year ahead we are confident that by continuing to invest in product and market development, improving productivity in the UK and winning contracts abroad we can move towards net cash generation and bottom line profitability, with borrowings peaking before year end.'

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Chairman's statement

The year to March 2005 not only marked the tenth anniversary of Patientline's first live hospital, but was also one of significant progress.

Revenue grew by 33% to £49.4 million, while both EBITDA and operating cash flow were approximately double the levels of the previous year at £16.4 and £16.7 million respectively, clearly demonstrating the cash generating capacity of the business. The operating loss for the year was reduced from £8.2 million to £4.6 million, while the loss before tax increased slightly to £11.8 million principally because of the one-off costs including those associated with the new bank facility, implementation of a new operating structure, and a Terminal design upgrade. Excluding these costs the loss would have been £9.4 million.

In the UK, the number of hospitals for which the Company had contracts or had been selected grew to 194 and has grown further to 196 since the year end, largely as a result of contracts that were won back from under-performing competitors. We maintained an intensive installation programme, although the number of new live bedside terminals at 17,300 was below the prior year because of a slowdown during the transition to Patientline's new fully-digital system. As stated at our Interim results in November we plan to reduce significantly the pace of our installation programme in the year ahead.

Revenue per terminal per day for the mature Terminal 2 systems increased by six pence on the prior year to £2.09, although revenues for both Terminal 1 and 2 were restrained in the second half by the closure of some high revenue wards and a change in the pattern of ward occupancy towards the end of the year. New pricing options are being piloted to encourage usage and increase revenues.

Access to electronic patient records has now been fully rolled out at Chelsea and Westminster Hospital, while the successful launch of menu ordering at North Tees has stimulated considerable interest across the NHS.

These developments provide a solid base for the shift in priorities that we announced last November in the UK towards accelerating profit and cash generation. With a significantly lower installation rate this year, we are eliminating resource that was dedicated to installations and redirecting effort to achieving higher productivity.

The Dutch business continued to advance, with revenues up 10%, operating profit up 38% to £1 million, a margin of 17%. Signature of the first contract to use Terminal 2 for clinical IT access represented an important milestone.

Progress in North America has exceeded expectations, based on Patientline's growing reputation as the market and technology leader, with a strong track record of delivery. The second hospital went live and the third contract was signed in close co-operation with GE Healthcare and Compucom. Among the hospitals that have now selected Patientline is the high profile Mayo Clinic in Jacksonville.

To support our ambitions in North America, we have taken two key steps since the year end in appointing a North American chief executive with long experience in the US healthcare market and signing our first non-exclusive distribution agreement with Compucom, a $2 billion IT services provider.

The willingness of US hospitals to purchase Patientline systems outright with an ongoing support contract means that Patientline can continue to develop this exciting opportunity without requiring any substantial commitment of capital or overhead and with minimal risk.

There has been significant change on the board during the year, with the appointment of Per Jonsson as our new chief executive, Phil Dennis as finance director, and Ross Graham as a new non-executive. Together they bring a powerful range of abilities and experience to the Company.

None of the progress during last year would have been possible without the dedication, hard work and flexibility of Patientline staff. We owe them all a great debt of gratitude.

Having successfully navigated the first two phases of its life – start up followed by the UK roll out – Patientline enters its third phase as the leading international provider of bedside communication services for patients and clinicians, with strong foundations in place and enormous potential. Despite the effects of recent operational changes within the NHS on current usage and revenue levels, we expect the second half of the current year to show very clear evidence of the move towards net cash generation and bottom line profitability, with borrowings peaking before the year end. Our continuing investment in product and market development also gives confidence in the longer term prospects for the Company.

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Preliminary announcement of results for the year ended 25 March 2005
Chief executive's statement

My first statement as Chief Executive of Patientline is inevitably brief and focussed more on the future than the year on which we are reporting – both because I arrived at the end of the financial year and I am still growing my knowledge of the company and its markets.

I have been struck by a variety of early impressions – the enthusiasm of Patientline staff, the strong position that Patientline enjoys in its markets, the depth of experience that now exists, and the enormous potential for profitable growth that faces the Company.

Patientline's technology and services are increasingly relevant to solving some of the most urgent problems facing the acute healthcare world. The importance of the different services and the business model varies from country to country, but Patientline's offering can adjust easily in response to these requirements.

We have some demanding tasks ahead of us to earn excellent returns on the investment already made in the UK while exploiting the opportunities that exist for new revenues in the UK and penetration of other major western markets. My role will be to ensure that we have clarity of purpose and priorities, and a coherent and able management team as we enter the third phase of the Company's development – the creation of a truly international market-leading provider of technology and services for the patient bedspace.

I look forward to reporting on progress in the achievement of these goals.

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Preliminary announcement of results for the year ended 25 March 2005
Financial review

Turnover

Turnover increased by 33% to £49.4 million reflecting the continuing growth in the number of operational hospitals in the UK and further progress in Holland. Group turnover comprised £43.5 million from the UK business, up 37% on the prior year, and £5.9 million from the Group's Dutch business, up 10% compared to prior year.

The strong growth in UK turnover is primarily attributable to the continuing success in winning new contracts and associated scale of the installation programme. Further growth in UK turnover derives from the increasing proportion of installed terminals that have reached revenue maturity. The total number of operational terminals rose from 55,700 to 73,000, an increase of 17,300 during the year. The average number of operational terminals grew to 63,300 representing a 44% increase on prior year.

Average revenue per terminal per day (RPTPD) for our latest generation technology (Terminal 2) increased by six pence to £2.09 for the 40 hospitals which were fully operational by 31 March 2003 and which are regarded as mature. Average RPTPD for these terminals in the second half, seasonally adjusted, was £2.08, unchanged on the second half of the prior year although 2 pence lower than the first half. The widely reported incidence of financial deficits with associated reductions in activity and ward closures, especially prevalent in the London region, adversely affected utilisation of terminals and consequently revenues during the final quarter of the year.

Average RPTPD for our estate of first generation technology terminals (Terminal 1) was £1.88 compared to £1.95 in the prior year. Changes in ward usage in key hospitals around London contributed significantly to this decline.

The 10% growth in turnover of our Dutch business reflects improved average RPTPD and better utilisation of terminals arising from the continuing programme to upgrade legacy sites to our midrange solution and Terminal 2 system. The Terminal 2 system generates higher average RPTPD than the midrange and both are higher than the legacy systems. Telephony, television and headphone revenues were each higher than prior year. At constant exchange rates the growth in turnover is 12%. At the year end, there were 14,700 beds installed.

Earnings Before Interest, Tax and Depreciation (EBITDA) and Losses before Tax

Gross margins improved by 0.5% points to 89.6%. Earnings before interest, tax, depreciation and amortisation were £16.4 million compared to £9.0 million last year, an increase of 82%. EBITDA as a percentage of sales increased from 24.2% to 33.2%.

The UK business increased EBITDA before central costs by 45%. The growth in EBITDA for the UK reflects efficiencies in the operation of the sites, particularly in site staffing and costs of running the Dumfries customer care centre. Site based operating costs for the UK increased by £3.5 million, less than the proportionate growth in UK revenues, and enabled us to reduce the ratio of these costs to UK turnover by almost 3 percentage points.

Our Dutch business increased EBITDA, excluding exchange gains and losses, by 31%. This business made progress in establishing a customer care centre for remote management of the systems in hospitals, which contributed to overall staff cost savings and operational efficiencies. By the year end, 8,500 beds were connected to the customer care centre.

Depreciation and amortisation increased by £3.8 million to £21.0 million, primarily reflecting the continuing programme of investment in new installations in the UK and Holland. Depreciation included a £0.3 million provision associated with a design upgrade to the terminal arm, all of which was charged in the second half.

The operating loss for the year was £4.6 million, a reduction of £3.6 million or 44% compared to last year. The operating loss is stated after charging £0.8 million restructuring and related costs and the £0.3 million accelerated depreciation for the terminal arms referred to above.

Interest payable and similar charges for the year were £7.2 million, an increase of £4.4 million compared to prior year. This increase reflects the combination of higher net average borrowings during the year resulting from the capital investment programme, together with a non-recurring charge of £1.3 million for the discharge of a discounted interest rate hedge contract entered into in 2002. A further £0.5 million charge in the year arises from the amortisation of arrangement and professional advisor fees related to the new borrowing facility completed in November 2004. The balance of these costs will be amortised over the residual term of the facility.

The loss before tax of £11.8 million compares to £11.0 million in the prior year. Excluding the non-recurring costs of the financial instrument, restructuring and related costs and the accelerated depreciation on the design upgrade to the terminal arms, the loss before tax would have been £9.4 million.

Cash flow and Balance Sheet

Net cash outflows in the year before financing were £30.8 million. This comprises capital expenditure of £39.3 million, primarily relating to the UK and Dutch installation programmes, debt costs of £8.0 million including £1.9 million fees relating to the new borrowing facility, and £0.2 million Dutch tax. These outflows were partially offset by operating cash inflows of £16.7 million. A cash inflow from exercised employee share options amounted to £0.6 million.

Net Debt at the year end was £76.8 million, £30.2 million higher than prior year. Year end shareholders' funds stood at £29.6 million.

As reported at the Interims, the Board decided to take advantage of the opportunity to negotiate a new bank credit agreement that offers reduced borrowing rates and provides greater flexibility and headroom. The new facility is led and underwritten by the Royal Bank of Scotland, as was the previous facility. The committed facility is for £105 million with a further £5 million working capital facility, compared with a total of £80 million for the previous arrangements. This is significantly higher than currently expected borrowing requirements, which are expected to peak in the year to March 2006, to provide headroom for possible future requirements.

Tax

The taxation charge in the year relates to the profits generated by the Dutch business. No charge for tax is considered appropriate for the UK business due to the substantial brought forward tax losses.

International Financial Reporting Standards ("IFRS")

This is the last year the results will be presented under UK GAAP.

From 1 January 2005, all European Union Listed Groups are required to adopt IFRS and consequently future financial statements, starting with the period ending March 2006, will be presented in accordance with IFRS, including all comparative information. The business is well prepared for the introduction of IFRS and has undertaken an exercise, with support from its accountants and other professional advisors, to identify the principal areas affected as set out below:

- Interest rate hedge: International Accounting Standard 39 (IAS 39: Financial Instruments) sets various conditions that must be satisfied in order to apply hedge accounting, through which gains or losses on hedge instruments may be taken directly to reserves. These conditions have been observed in the negotiation of the new interest rate hedge, taken out as one of the requirements of the new borrowing facility.

- Amortisation of goodwill: IFRS 3 (Business Combinations) and IAS 36 (Impairment of Assets) require annual impairment reviews to replace the systematic amortisation of goodwill. Patientline is however able to apply transition rules whereby goodwill may continue to be amortised under certain circumstances.

- Share options: IFRS 2 (Share-Based Payment) applies certain rules in respect of share-settled or cash-settled transactions such as share options. These require the Group to recognise the expense arising out of the awards under these arrangements over the relevant vesting periods. The amount to be recognised is the fair value of the awards.

- Holiday accrual: IAS 19 (Employee Benefits) requires that Patientline recognises an asset or liability for prepaid or accrued employee benefits such as employee holidays.

The adoption of IFRS will result in changes to the format and disclosure requirements of both the financial statements and notes to the financial statements.

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Consolidated profit and loss account

	Note	2005 £'000	2004 £'000
Turnover	2	49,409	37,202
Cost of sales		(5,129)	(4,043)
Gross profit		44,280	33,159
Total administrative expenses		(48,876)	(41,372)
Earnings before interest, taxation, depreciation and amortisation		16,402	9,003
Depreciation and amortisation		(20,998)	(17,216)
Operating loss		(4,596)	(8,213)
Interest payable and similar charges		(7,231)	(2,830)
Loss on ordinary activities before taxation	2	(11,827)	(11,043)
Tax on loss on ordinary activities		(258)	(72)
Loss for the financial year		(12,085)	(11,115)
Loss per share – basic and diluted	3	13.17p	12.18p

All amounts related to continuing activities.

Statement of total recognised gains and losses

	2005 £'000	2004 £'000
Loss for the financial year	(12,085)	(11,115)
Exchange loss	(28)	(32)
Total recognised gains and losses relating to the year	(12,113)	(11,147)

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Preliminary announcement of results for the year ended 25 March 2005
Consolidated balance sheet

	Note	2005 £'000	Restated 2004 £'000
Fixed assets			
Intangible fixed assets		6,957	8,078
Tangible assets		110,715	87,137
		117,672	95,215
Current assets			
Stocks		815	278
Debtors		6,794	5,471
Cash at bank and in hand		5,203	2,041
		12,812	7,790
Creditors: amounts falling due within one year		(19,462)	(13,394)
Net current liabilities		(6,650)	(5,604)
Total assets less current liabilities		111,022	89,611
Creditors: amounts falling due after more than one year		(81,430)	(48,500)
Net assets		29,592	41,111
Capital and reserves – equity			
Called up share capital		4,623	4,575
Share premium account		76,882	76,336
Capital redemption reserve		1	1
Profit and loss account		(51,914)	(39,801)
Shareholders' funds	4	29,592	41,111

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Consolidated cash flow statement

	Note	2005 £'000	Restated 2004 £'000
Net cash inflow from operating activities	5	16,657	7,757
Returns on investments and servicing of finance			
Debt issue costs		(1,906)	(450)
Interest paid		(6,088)	(1,185)
Net cash outflow from returns on investments and servicing of finance		(7,994)	(1,635)
Taxation		(130)	(152)
Capital expenditure			
Purchase of intangible fixed assets		(1,229)	(1,164)
Purchase of tangible fixed assets		(38,094)	(43,038)
Net cash outflow from capital expenditure		(39,323)	(44,202)
Net cash outflow before financing		(30,790)	(38,232)
Financing			
Issue of shares		594	138
Repayment of loan notes		-	(72)
Bank loans received		82,000	39,500
Bank loans repaid		(48,500)	-
Net cash inflow from financing		34,094	39,566
Increase in cash	6	3,304	1,334

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Preliminary announcement of results for the year ended 25 March 2005
Notes to the preliminary announcement

1. Results and accounting policies

The preliminary results have been prepared under the historical cost convention, in accordance with applicable Accounting Standards in the United Kingdom and with the Group's accounting policies as set out in the financial statements for the year ended 26 March 2004. The preliminary results were approved by an authorised committee of the Board on 6 June 2005 and are unaudited.

The Group takes advantage of section 223 of the Companies Act and prepares financial statements to the last Friday in the financial year without changing its 31 March accounting reference date. The 2005 financial statements have therefore been drawn up to 25 March 2005. The 2004 financial statements were drawn up to 26 March 2004 but incorrectly stated that the financial year ended on 31 March 2004. This has no impact on the results or assets and liabilities of the Group for the year ended 26 March 2004 as previously reported but, for comparative purposes in the 2005 financial statements, the 2004 year end date has been amended.

The financial information contained in this unaudited preliminary announcement does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985. The financial information for the year ended 26 March 2004 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under either Section 237 (2) or Section 237 (3) of the Companies Act 1985. The statutory accounts for the year ended 25 March 2005 and the auditors' report thereon will be finalised based on the information in this preliminary announcement and will be delivered to the Registrar of Companies following the company's Annual General Meeting.

2. Segmental analysis

Turnover is wholly attributable to the principal activity of the group and is split geographically as follows:

	2005 £'000	**2004 £'000**
United Kingdom	43,484	31,794
Continental Europe	5,925	5,408
	49,409	37,202

	2005		**2004**	
	(Loss)/profit before tax £'000	**Net assets / (liabilities) £'000**	**Loss before tax £'000**	**Net assets / (liabilities) £'000**
United Kingdom	(11,823)	30,783	(10,436)	42,013
Continental Europe	214	(973)	(607)	(902)
North America	(218)	(218)	-	-
	(11,827)	29,592	(11,043)	41,111

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Notes to the preliminary announcement (continued)

3. Loss per share

The loss per share has been calculated in accordance with FRS14 ‘Earnings per share’. The calculation of the loss per ordinary share is based on losses of £12,085,000 (2004: £11,115,000) and on a weighted average of 91,794,140 (2004: 91,291,911) ordinary shares in issue during the year. The impact of outstanding share options on earnings per share is not dilutive.

4. Reconciliation of movements in equity shareholders’ funds

	2005 £’000	2004 £’000
Loss for the financial year	(12,085)	(11,115)
Issue of share capital	594	169
Exchange loss	(28)	(32)
Net movement in shareholders’ funds	(11,519)	(10,978)
Opening shareholders’ funds	41,111	52,089
Closing shareholders’ funds	29,592	41,111

5. Reconciliation of operating loss to net cash inflow from operating activities

	2005 £’000	Restated 2004 £’000
Operating loss	(4,596)	(8,213)
Depreciation	18,557	14,843
Amortisation	2,441	2,373
Loss on sale of fixed assets	34	317
Increase in stocks	(537)	(7)
Increase in debtors	(1,323)	(2,048)
Increase in creditors	2,081	492
Net cash inflow from operating activities	16,657	7,757

Preliminary announcement of results for the year ended 25 March 2005
Notes to the preliminary announcement (continued)

6. Analysis of changes in net debt

	At 27 March 2004 £'000	Cash flow £'000	At 25 March 2005 £'000
Cash at bank and in hand	2,041	3,162	5,203
Overdraft	(142)	142	-
	1,899	3,304	5,203
Bank loans	(48,500)	(33,500)	(82,000)
	(46,601)	(30,196)	(76,797)

7. Reconciliation of net cash flow to movement in net debt

	2005 £'000	2004 £'000
Increase in cash in year	3,304	1,334
Cash inflow from increase in debt	(33,500)	(39,500)
Increase in net debt from cash flows	(30,196)	(38,166)
Unsecured convertible loan notes	-	72
	(30,196)	(38,094)
Net debt at beginning of the year	(46,601)	(8,507)
Net debt at end of the year	(76,797)	(46,601)

8. Restatement

Cabling stock of £387,000 has been reclassified in the balance sheet at 26 March 2004 to fixed assets from stocks. The reclassification reflects the substance of the assets. There was no impact to the profit and loss account of this restatement.