Patientline PLC
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Press Release

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Patientline plc
Announcement of interim results for the six months ended 23 September 2005

Financial Highlights
- Revenue increased by 13% to £26.4 million year on year
- EBITDA up 15% to £9.2 million year on year
- Operating cash flow up 10% to £10.7 million
- Borrowings expected to peak early in the new calendar year

Operating Highlights
- Internet and email live at 37,000 UK beds
- Second food ordering system live in Hartlepool
- Acquisition of HTS adds 2,500 beds in Holland
- First revenues of £0.5 million recorded in US

	Period to 23 Sep 2005 £m	Period to 24 Sep 2004 As restated £m	
Revenue	26.4	23.3	+ 13%
EBITDA	9.2	8.0	+ 15%
Operating loss	(2.1)	(1.2)	+ 70%
Loss before tax	(5.3)	(3.8)	+ 39%
Operating cash flow	10.7	9.8	+ 10%
Net borrowings	(84.3)	(59.5)	
	Pence	Pence	
Loss per share	(5.8)	(4.3)	+35%

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

'The Company has responded with determination to the challenges of the past six months. Patientline has established an unrivalled position in the provision of bedside technology, which provides a strong base for future development in the UK and abroad and the creation of shareholder value. We are confident of being vindicated by the Ofcom investigation and look forward to restoring our momentum in the UK once the uncertainty created by the investigation has been removed.'

Enquiries

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Derek Lewis, Chairman		Andrew Honnor
Per Jonsson, Chief Executive		Tim Lynch
Phil Dennis, Finance Director		

Chairman's Statement

Your Company has responded with determination to the challenges of the past six months, which have included a competition investigation into our contracts with the NHS and the level of charges for incoming calls, combined with a period of weaker trading. The investigation has led to suspension of installation work in the UK, which has not only caused difficulties for the Company but also for our customers and suppliers. In addition it has been necessary to modify our banking facilities to take account of these factors.

We have taken a range of actions to reverse the revenue weakness and have responded vigorously to the Ofcom investigation. Meanwhile progress in the development of our businesses in continental Europe and North America has been very encouraging.

These factors are reflected in the financial results, with turnover up 13% at £26.4 million and EBITDA up 15%. The weaker trading meant that the growth in EBITDA during this period was insufficient to cover the increase in depreciation and interest costs resulting in an increase in the loss before tax to £5.3 million (£3.8 million in the first half of the prior year). The growth in net borrowings slowed during the period as a result of the lower level of installations, rising by £8.9 million to £84.3 million (compared with an increase of £15.9 million in the immediately preceding half year).

Ofcom Investigation

At the end of July, Ofcom announced its competition investigation into the contracts between the NHS and two licencees, Patientline and Premier, and into the level of incoming call charges. Since then, Patientline has supplied a large amount of information to Ofcom and has had several meetings to explain the economic, financial and contractual basis on which the Patient Power programme was set up by the Department of Health in 2000. The obligations imposed by the Patient Power Licences with respect to the technical specification, service levels, maximum prices to patients and the provision of free services together dictate both the terms of the contracts and the charges that have to be made to incoming callers.

Patientline has co-operated fully with Ofcom in this investigation and remains confident that the Company's actions will be vindicated. Nevertheless the effect on a small company has been disproportionate, including the accompanying negative publicity, the suspension of new investment, a sharp drop in the share price and the requirement to renegotiate banking facilities. It is particularly frustrating as Patientline was already in discussions with the Department of Health about accelerating use of these world-leading systems by hospitals to enable a reduction in the share of the costs borne by patients and their friends and family.

Ofcom expects to reach a conclusion, if no infringement is found, by the end of January 2006. Otherwise its timetable would normally extend by up to six months.

UK Operations

We indicated in our preliminary announcement at the beginning of June that revenue levels had been affected by ward closures, lower bed occupancy and changes in patient mix in NHS hospitals, resulting from the financial deficits experienced by many trusts and changes in the commissioning and funding system.

These influences have continued and have been aggravated by a temporary deterioration in the usage of our systems because of staffing shortages, repair and software issues, as well as negative publicity and some increase in the usage of mobiles outside the ward areas.

Top priority has been given to restoring usage of our terminals to previous levels through full system audits, recruitment of additional staff, release of new software and appointment of a new repair sub-contractor. Our response to ward closures and changes in occupancy has been to remove terminals from service where they will not be required in the immediate future and to redeploy them, to adjust staffing levels accordingly and to introduce new product and price offerings targeted at the changing needs of patients. Internet and email are now available at 37,000 terminals and the range of games has been improved. A short stay package will be launched shortly. In addition efficiency gains have been achieved by reshaping site-based operations resulting in a reduction of 3% points in the ratio of hospital costs to revenue.

As disclosed in July, revenue per terminal in the more mature UK hospitals (installed prior to the end of March 2004) was down about 5% in the first half compared with the same period in the previous year, with weaker performance from the more recently launched hospitals because of the software issues referred to above and from hospitals in the southeast, where staffing shortages have been more prevalent. Revenues appear to have stabilised since the early summer, with most of the effect of the corrective actions yet to be felt.

The financial stresses within the NHS and the delays in implementation of the major IT programme, Connecting for Health, have meant that progress in generating new revenues from hospitals has been slow. Nevertheless, IT access at the bedside is now fully rolled out at Chelsea and Westminster Hospital and the second hospital, in Hartlepool, is now live with menu display and meal ordering at the bedside, with a third hospital due to come on stream shortly.

Banking Facilities

The Company's banks have remained very supportive in these circumstances. It has been necessary to negotiate changes to the banking facility to reflect the uncertainty created by the Ofcom investigation, the change in the trading position and the suspension of new installation activity. These changes have now been agreed. They include a reduction in the size of the facility to reflect the reduced borrowing requirements, adjustments to the financial covenants and provision for repayment to commence in 2006, one year earlier than previously planned, in line with the Company's revised investment plans and expected cash generation. It is anticipated that there will be further modifications to the facility once the outcome of the Ofcom investigation and longer term trading trends are known.

Overseas

The Company's overseas businesses made excellent progress.

In Holland, revenue was ahead by 12% and operating profit by 18% (excluding the one-off effect of exchange rates on balance sheet translation and the French development costs) compared with the first half of the previous year. The six hospital contracts acquired from HTS were successfully integrated.

Good progress has been made in generating interest in France, where there is a major Government driven IT programme.

In the US, the Company recorded its first revenues of £0.5 million. Resources have been increased with the appointment of a US-based chief executive, supported by technical and finance capability. Despite these added costs, the operating loss incurred was only £0.4 million, consistent with the board's intention of developing the US opportunity without significant cash exposure for the Company. Partnerships with Compucom, GE and others have continued to strengthen during this period, while negotiations with several significant new hospitals have been progressing towards conclusion.

Patientline People

Sir Alan Langlands intends to step down from the board towards the end of this financial year, on completion of five years' service since flotation, to concentrate on his full-time role as Principal and Vice Chancellor of the University of Dundee. The board is extremely grateful for Sir Alan's contribution to the Company over this period. We shall announce the appointment of a further non-executive director in due course.

The external factors affecting the Company in the UK have caused abnormal demands on the board and staff throughout the Company. They deserve very special thanks for the way they have risen to the challenge and for their continued dedication in providing an important service to patients and hospitals.

International Financial Reporting Standards ('IFRS')

The Company has previously presented its results in accordance with UK GAAP. As is now required, these results, together with the comparative information, have been determined and presented under IFRS. A full report on the transition to IFRS was released and published on the Group's website on 22 November 2005. This shows the main changes that IFRS made to the reporting of the Company's results. Note 6 to the interim report provides a reconciliation between the results for the period under IFRS and UK GAAP. There is no impact upon the cash flows of the Group.

The Future

Patientline has established an unrivalled position in the UK and abroad in the provision of bedside technology, which provides a strong base for future development and the creation of shareholder value. We are confident of being vindicated by the Ofcom investigation and look forward to restoring our momentum in the UK once the uncertainty created by the investigation has been removed.

Group Income Statement - unaudited

	Notes	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 As restated £'000	Year ended 25 Mar 2005 As restated £'000
Group revenue	3	26,402	23,289	49,409
Cost of sales		(2,888)	(2,500)	(5,129)
Gross profit		23,514	20,789	44,280
Administrative expenses		(25,632)	(22,036)	(48,359)
Earnings before interest, taxation, depreciation and amortisation		9,237	8,028	16,267
Depreciation and amortisation		(11,355)	(9,275)	(20,346)
Group operating loss	3	(2,118)	(1,247)	(4,079)

Finance costs			(3,210)	(2,593)	(7,231)
Loss before taxation			(5,328)	(3,840)	(11,310)
Taxation	4		(22)	(72)	(258)
Retained loss for the period attributable to equity shareholders			(5,350)	(3,912)	(11,568)
			Pence	Pence	Pence
Earnings per share	5				
Loss per share - basic and diluted			(5.8)	(4.3)	(12.6)

Group Balance Sheet - unaudited

		As at 23 Sep 2005	As at 24 Sep 2004	As at 25 Mar 2005

	Notes	£'000	As restated £'000	As restated £'000
ASSETS				
Non-current assets				
Property, plant and equipment		110,190	99,718	110,715
Goodwill		5,250	5,244	5,282
Other intangible assets		2,499	2,754	2,327
		117,939	107,716	118,324
Current assets				
Inventory		797	279	815
Trade and other receivables		5,406	6,180	6,794
Cash and cash equivalents	9	4,395	4,412	5,203
		10,598	10,871	12,812
Total assets		128,537	118,587	131,136
LIABILITIES				

Current liabilities				
Borrowings (see note 10)	9	(88,731)	-	-
Derivative financial instruments		(2,156)	-	-
Trade and other payables		(13,776)	(17,353)	(19,367)
Current tax liabilities		(135)	(275)	(361)
		(104,798)	(17,628)	(19,728)
Non-current liabilities				
Borrowings	9	-	(63,900)	(80,560)
Other non-current liabilities		-	-	(870)
		-	(63,900)	(81,430)
Total liabilities		(104,798)	(81,528)	(101,158)
Net assets		23,739	37,059	29,978

Shareholders' equity					
Share capital			4,623	4,589	4,623
Share premium account			76,882	76,345	76,882
Other reserves			(831)	54	58
Retained earnings			(56,935)	(43,929)	(51,585)
Total shareholders' equity			23,739	37,059	29,978

Group Cash Flow Statement - unaudited

	Notes	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 As restated £'000	Year ended 25 Mar 2005 As restated £'000
Cash flows from operating activities				
Cash generated from operations	7	10,716	9,769	16,657

Debt issue costs		-	-	(1,906)
Net interest paid		(1,665)	(1,799)	(6,139)
Tax paid		(248)	(30)	(130)
Net cash flows from operating activities		8,803	7,940	8,482
Cash flows from investing activities				
Acquisition of businesses (net of cash acquired)	8	(189)	-	-
Purchase of property, plant and equipment		(16,653)	(20,135)	(38,094)
Expenditure on product development		(521)	(651)	(1,229)
Net cash flows from investing activities		(17,363)	(20,786)	(39,323)
Cash flows from financing activities				
Increase in borrowings	9	8,000	15,400	33,500
Payments in respect of derivative financial instruments		(248)	(51)	51

Proceeds from issue of share capital		-	10	594
Net cash flows from financing activities		7,752	15,359	34,145
(Decrease)/increase in cash and cash equivalents for the period	9	(808)	2,513	3,304
Cash and cash equivalents brought forward		5,203	1,899	1,899
Cash and cash equivalents carried forward	9	4,395	4,412	5,203

Statement of Group Total Recognised Income and Expense - unaudited

	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 As restated £'000	Year ended 25 Mar 2005 As restated £'000
Loss for the period	(5,350)	(3,912)	(11,568)

Cash flow hedges - effective portion of changes in fair value	(775)	-	-
Exchange differences on foreign currency net investments of the Group	94	17	(28)
Total recognised income and expense for the period attributable to equity shareholders	(6,031)	(3,895)	(11,596)

Statement of Changes in Group Shareholders' Equity - unaudited

	Note	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 As restated £'000	Year ended 25 Mar 2005 As restated £'000
Total recognised income and expense for the period		(6,031)	(3,895)	(11,596)
Issue of ordinary shares		-	23	594
Share-based payments		99	14	63
Net reduction in equity		(5,932)	(3,858)	(10,939)

shareholders' funds				
Opening equity shareholders' funds - before restatement		29,978	40,917	40,917
Adjustment for the adoption of IAS 32/39	1	(307)	-	-
Opening equity shareholders' funds - as restated		29,671	40,917	40,917
Closing equity shareholders' funds		23,739	37,059	29,978

Notes to the Interim Report

1 Basis of preparation

The interim financial information has been prepared in accordance with the accounting policies set out in the Company's press release addressing the transition to IFRS, dated 22 November 2005. The press release is available on the Company's website, www.patientline.co.uk.

It is possible that changes may be required to the financial information contained in this Interim Report when it appears for comparative purposes in future financial statements, as not all IFRS statements have been formally endorsed by the EU and further interpretative guidance on the standards may be issued.

The Group adopted IAS 32 - Financial Instruments - Disclosure and Presentation and IAS 39 - Financial Instruments - Recognition and Measurement with effect from 26 March 2005 and the impact of that transition is set out in the Statement of Changes in Group Shareholders' Equity on page 8. The Group has recognised derivative financial instrument liabilities in respect of an interest rate swap at fair value at that date increasing liabilities by £307,000, being the fair value of the interest rate swap liability of £1,577,000 less £1,270,000 accrued under UK GAAP.

The comparative financial information for the period ended 24 September 2004 and the year ended 25 March 2005 has been extracted from the interim and annual financial statements of Patientline plc and is re-stated in accordance with the adopted IFRS. The consolidated interim financial information does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. These interim results are unaudited but have been reviewed by the Group's auditors. The statutory accounts for the year ended 25 March 2005, which are prepared under UK GAAP, have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain the statements under section 237(2) or (3) of the Companies Act 1985.

These financial statements have been prepared on a going concern basis which anticipates the approval by shareholders of the ordinary resolution that borrowings in excess £50 million stated in Article 100.1 of the Articles of Association be approved up to a maximum of £150 million or any greater amount otherwise permitted pursuant to that Article at the Extraordinary General Meeting ('EGM') to be held on 9 December 2005.

2   Exchange rates

The results and cash flows of overseas subsidiaries are translated into Sterling using average rates of exchange for the period. The principal rates were as follows:

	Period ended 23 Sep 2005	Period ended 24 Sep 2004	Year ended 25 Mar 2005
Average			
Euro	1.47	1.50	1.47
US Dollar	1.83	-	1.85
Closing			
Euro	1.47	1.46	1.46
US Dollar	1.79	-	1.87

3 Segmental analysis

For management purposes, the Group is currently organised into three geographical divisions, the United Kingdom, Rest of Europe and North America. These divisions are the basis on which the Group reports its primary segment information. The Directors consider the business and geographical segments to be identical and therefore segmental analysis is disclosed for the primary segment only.

	Revenue			Operating (loss)/profit		
	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 £'000	Year ended 25 Mar 2005 £'000	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 £'000	Year ended 25 Mar 2005 £'000
United Kingdom	22,786	20,484	43,484	(2,120)	(1,920)	(5,307)
Rest of Europe	3,149	2,805	5,925	358	673	1,446
North America	467	-	-	(356)	-	(218)
	26,402	23,289	49,409	(2,118)	(1,247)	(4,079)
Finance costs				(3,210)	(2,593)	(7,231)
Taxation				(22)	(72)	(258)
Loss for the period attributable to equity				(5,350)	(3,912)	(11,568)

shareholders						

4 Taxation

The tax charge for the year has been based on the estimated effective tax rate for the full year. Deferred tax assets arising from accelerated capital allowances and trading losses have not been recognised on the basis that their future economic benefit is uncertain.

5 Loss per share

The calculation of loss per share is based on losses of £5,350,000 (2004: £3,912,000) and 92.5 million shares (2004: 91.6 million), being a daily average of shares in issue during the period. The share options are considered non-dilutive due to the loss in the period.

6 Reconciliation of the loss after tax from IFRS to UK GAAP

In this year of transition to IFRS, the board considers it helpful to set out the difference between loss after tax on an IFRS basis and under UK GAAP.

	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 As restated £'000	Year ended 25 Mar 2005 As restated £'000
Loss after tax - IFRS	(5,350)	(3,912)	(11,568)

Share-based payments	179	19	127
Holiday pay accruals	(202)	(194)	8
Goodwill amortisation	(326)	(323)	(652)
Loss after tax - UK GAAP	(5,699)	(4,410)	(12,085)

7 Cash generated from operations

	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 As restated £'000	Year ended 25 Mar 2005 As restated £'000
Loss for the period attributable to equity shareholders	(5,350)	(3,912)	(11,568)
Depreciation and other non-cash items:			
Depreciation	10,705	8,544	18,557
Amortisation	650	731	1,789

Loss on disposal of fixed assets	-	-	34
Share-based payments	99	14	63
Working capital movements	1,380	1,727	293
Finance costs	3,210	2,593	7,231
Taxation	22	72	258
Cash generated from operations	10,716	9,769	16,657

8 Acquisitions

Hospitaal Televisie Service

On 1 July 2005 the Group acquired the business and certain assets of Hospitaal Televisie Service BV (HTS) based in Bussum, the Netherlands, for a net cash consideration of £167,000 (€245,000). A further payment of up to £246,000 (€362,000) is deferred and payable over the next four years based on the renewal of certain hospital contracts.

	Fair value to the Group £'000
Tangible fixed assets	131

Total net assets	131
Intangible asset acquired	282
Total consideration	413
Less consideration deferred	(246)
Net cash outflow on acquisition	167

The fair value of the assets acquired is based on an independent valuation obtained prior to the completion of the acquisition.

The intangible asset acquired comprises contractual customer relationships. This intangible asset is being written off over 10 years, being the expected life of these customer relationships.

Polivision

On 1 July 2005 the Group acquired the business and assets of Polivision Nederland BV based in Bussum, the Netherlands, for a net cash consideration of £22,000. Tangible fixed assets acquired were £4,000 with resultant goodwill of £18,000.

Trading results of the acquired businesses

Contribution to Group revenue and operating loss of the two businesses from the date of acquisition to 23 September 2005 was £155,000 revenue and £53,000 operating profit respectively.

Detail in respect of the pre-acquisition trading of these businesses is not disclosed as this information was not provided by the vendors at the time of the acquisitions.

9 Reconciliation of net borrowings

	Note	Period ended 23 Sep 2005 £'000	Period ended 24 Sep 2004 As restated £'000	Year ended 25 Mar 2005 As restated £'000
(Decrease)/increase in cash and cash equivalents during the period		(808)	2,513	3,304
Cash inflow from increase in borrowings		(8,000)	(15,400)	(33,500)
Movement in unamortised debt issue costs		(171)	-	1,440
Movement in net borrowings during the period		(8,979)	(12,887)	(28,756)

Net borrowings brought forward		(75,357)	(46,601)	(46,601)
Net borrowings carried forward		(84,336)	(59,488)	(75,357)
Cash and cash equivalents		4,395	4,412	5,203
Current borrowings (net of unamortised debt issue costs)	10	(88,731)	-	-
Non-current borrowings (net of unamortised debt issue costs)		-	(63,900)	(80,560)
Net borrowings carried forward		(84,336)	(59,488)	(75,357)
Analysis of borrowings				
Total bank loans		(90,000)	(63,900)	(82,000)
Unamortised debt issue costs		1,269	-	1,440
		(88,731)	(63,900)	(80,560)

10 Post balance sheet event

Since July 2005 discussions have been held with the Group's lenders in respect of amendments to the existing banking facilities entered into on 29 November 2004, comprising a committed facility of £105 million with a further £5 million working capital facility. These discussions involved consideration of revisions to future banking covenants and the repayment pattern of the committed facility to reflect revised forecasts following the announcement of the Ofcom investigation (see note 11), the consequent deferral of terminal installation and lower than anticipated revenue per terminal per day.

At the period end these discussions were still in progress. On 30 September 2005 the lenders provided a waiver of certain technical breaches under the credit agreement until the earlier of 15 December 2005 and the date on which the Company and the lenders signed amendments to the credit agreement.

On 28 November 2005 these negotiations were successfully concluded with the renewal, on a committed basis, of bank borrowing facilities of £95.5 million until 30 November 2011, conditional upon the approval of shareholders to the ordinary resolution that borrowings in excess £50 million stated in Article 100.1 of the Articles of Association be approved up to a maximum of £150 million or any greater amount otherwise permitted pursuant to that Article at the EGM on 9 December 2005.

The revised facilities comprise a term loan facility of £75 million, a £15.5 million multi-currency revolving credit facility and a £5 million overdraft facility. The revised credit agreement has provided for a period of 18 months during which financial covenants and loan repayments have been revised. After this period the terms revert substantially to those as set out in the original credit facility dated 29 November 2004. It is anticipated that there will be further modifications to the credit facility once the outcome of the Ofcom investigation and longer term trading trends are known.

Under the provisions of IAS 1 - Presentation of Financial Statements, in order to classify the loan facility as non-current at the period end, the lenders must have provided on or before the balance sheet date a period of grace ending at least twelve months after the balance sheet date within which they cannot demand repayment of the facilities. Given the circumstances at the period end, in accordance with IAS 1, the loan balances have been disclosed as current liabilities.

On the passing of the resolutions at the forthcoming EGM on 9 December 2005 the loans will revert to being non-current.

11 Contingent liabilities

On 21 July 2005, Ofcom, the independent regulator and competition authority for the UK communications industries, opened an own-initiative investigation into the agreements between Patient Power licensees and NHS Trusts and the prices charged for incoming calls to hospital patients by at least two of the principal providers, including Patientline.

Since this date Patientline has been working closely with Ofcom, providing information and assistance requested for the investigation. Patientline believes the investigation will conclude that there has been no infringement by the Company. However, until the investigation is finalised, the outcome cannot be determined and as such the impact on the Company cannot be established.