

**Company Registration No. 4308840  
(Delaware, United States of America)**

**Phorm, Inc**

**Report and Financial Statements**

**31 December 2007**

# **Phorm, Inc**

## **Report and financial statements 2007**

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# **Phorm, Inc**

## **Directors and professional advisers**

### **Directors**

K Ertugrul  
V Vahidi  
D Dorman  
C Lawrence  
S Heyer

### **Secretary**

D Pester

### **Registered Office**

2711 Centerville Road  
Suite 400  
City of Wilmington 19808  
County of New Castle  
Delaware  
USA

### **Bankers**

HSBC Bank USA  
National Association  
5 Penn Plaza  
New York  
NY 10001

### **Solicitors**

Nabarro LLP  
Lacon House  
Theobald's Road  
London  
WC1X 8RW  
United Kingdom

### **Auditors**

Deloitte & Touche LLP  
London

# **Phorm, Inc**

## **Board of directors**

### **Kent Ertugrul, Chief Executive Officer**

Kent Ertugrul, Chairman and Chief Executive Officer, has built up a number of businesses in finance and technology over the past 20 years. He started his career in investment banking, working at JP Morgan, Credit Suisse and Morgan Stanley before going into business on his own. His early ventures included Migs Etc, which offered tourists flights on Mig aircraft as the Soviet Union embraced market economics. Additionally, as director and chief financial officer, he oversaw the growth of Compass Technology into a leading PC-based voice mail company. In 1991 Compass merged with California based Octel Communications, which in turn was acquired by Lucent Technology.

Kent has worked with the same technology team for more than 17 years specialising in creating and developing technology to enhance social interaction. Prior to starting Phorm, Kent founded Life.com, a desktop software and online interactive diary, and Voxster, a company enabling instant messaging from email. Phorm was publicly listed on the London Stock Exchanges AIM market in 2004. Kent attended St Paul's School, London and holds a Bachelor's degree in Politics from Princeton University.

### **David Dorman, Non-Executive Director**

David Dorman has been an advisor to the Company since July 2006 and a Non-Executive Director since 21 May 2007. He is currently senior advisor and partner at global private equity firm Warburg Pincus and was previously Chairman and Chief Executive Officer of AT&T Corp. Before that, he was Chief Executive Officer of Concert, the global venture created by AT&T and British Telecommunications. David serves as Non Executive Chairman on the Board of Motorola Inc, and serves on the Boards of CVS Corporation, Firethorn Mobile, LLC, and YUM! Brands, Inc.

### **Steven J Heyer, Non-Executive Director**

Steven J Heyer joined the Phorm board as a Non-Executive Director on 1 October 2007. Mr Heyer is a seasoned and innovative leader, operator, marketer/brand builder and strategist and is currently the Co-Chairman and Chief Executive Officer of Fathom Studios and Vice Chairman of Mistral Acquisition Company. Mr Heyer was the Chief Executive Officer of Starwood Hotels & Resorts Worldwide from October 2004 until April 2007. Prior to joining Starwood, he was President of Coca-Cola Ventures and Coca-Cola Latin America from 2001 to 2002 and President and Chief Operating Officer of The Coca-Cola Company from 2002 to September 2004. From 1994 to 2001 he was President and Chief Operating Officer of Turner Broadcasting System, Inc., and a member of AOL Time Warner's Operating Committee. Previously Mr Heyer was President and Chief Operating Officer of Young & Rubicam Advertising Worldwide, and before that spent 15 years at Booz Allen & Hamilton, ultimately becoming Senior Vice President and Managing Partner. He is a member of the Board of Directors of Lazard Ltd and Lazard Group, Mistral Acquisition Company, the National Collegiate Athletic Association and the Special Olympics.

### **Christopher Lawrence, Non-Executive Director**

Christopher Lawrence, Non-Executive Director, was appointed on 21 May 2007. He is currently Co-Head of Investment Banking, Rothschild Inc. (North America). Prior to joining Rothschild in 2005, Mr Lawrence was Chief Strategic Officer of Credit Suisse Group as well as Vice Chairman of Credit Suisse First Boston. He began his investment-banking career at Salomon Brothers in 1981.

## **Phorm, Inc**

### **Board of directors**

#### **Virasb Vahidi, Chief Operating Officer**

Virasb Vahidi, Chief Operating Officer, has oversight responsibility for global corporate operations, strategic planning, finance, human resources, and legal at Phorm. Virasb is an international business executive with a career encompassing senior finance, strategy and planning roles in global companies, including AT&T Corp. and American Airlines, Inc. Virasb was most recently senior vice president of corporate strategy and development at AT&T, where he was the financial architect of the AT&T/SBC Communications merger and the co-leader of the integration team. His responsibilities at AT&T included global mergers and divestments, strategic business and technology initiatives, the AT&T venture capital fund, financial and capital planning and investor relations. Prior to AT&T, he worked in senior finance and planning positions at American Airlines where his responsibilities included airline profitability and financial analysis and the negotiation and management of American Airline's alliances in Asia, Europe, the Middle East and Africa. Virasb holds an MBA from École Nationale des Ponts et Chaussées, Paris, and a Bachelor's Degree in Engineering from the University of California, San Diego.

# **Phorm, Inc**

## **Chairman's statement**

### **Introduction**

During the year under review, Phorm made significant progress, both in terms of its corporate development and in executing the Company's Internet Service Provider (ISP) relationship strategy, providing a solid foundation on which to take the business forward to the next stage of its development. As a result of our hard work, I am extremely happy to report that on 14 February 2008, we announced exclusive agreements with BT, Talk Talk and Virgin Media, further details of which I have provided below.

### **Results and financial position**

In line with our previous decision to focus the Company's efforts entirely on implementing our strategy of developing our proprietary technology platform and building ISP relationships, advertising revenue ceased in 2006. Operating losses for the year were \$32.8 million (2006: \$11.6 million) reflecting continued investment in business infrastructure, technology, people and systems. The operating loss includes a non-cash share based payment charge of \$8.9 million (2006: \$1.5 million). Losses after taxation were \$32.2 million (2006: \$11.5 million). Loss per share was \$2.74 (2006: \$1.13).

During the course of 2007, the Company benefited from continuing support from its investors. In February 2007, Morgan Stanley Principal Investments invested \$5.0 million in the Company and in June 2007, we carried out an institutional placing which raised \$30.5 million before expenses. This considerable support underpinned the rapid progress of the Company.

I am also pleased to report that on 19 March 2008 we announced the completion of a further institutional equity fundraising which raised an additional \$65 million for the Company before expenses. In these current times of uncertainty in the financial markets, the fact that we were able to raise significant funds is testament to the strength and potential of our business model.

Our balance sheet at 31 December 2007 showed net assets of \$15.1 million (2006: \$3.2 million) with cash and cash equivalents of \$16.6 million (2006: \$3.8 million) and virtually no debt. Together with these existing cash resources, the additional funds raised will enable the Group to embark on its next phase of development.

Net cash used in operating activities was \$22.4 million (2006: \$8.3 million), principally due to the operating costs incurred (less non-cash share-based payment charges). This cash usage was principally funded by the equity fundraising in the year (net of issue costs) of \$35.2 million (2006: \$11.7 million).

### **People**

Over the course of 2007, a number of high profile executives joined Phorm. On 21 May 2007, we announced three senior board appointments; Firstly, David Dorman joined us as a Non-Executive Director having been an advisor to the Company since July 2006. He is currently senior adviser and partner at global private equity house Warburg Pincus and was previously Chairman and Chief Executive Officer of AT&T Corp. Before that, he was Chief Executive Office of Concert, the global venture created by AT&T and British Telecommunications. David serves as Non Executive Chairman on the Board of Motorola Inc., and serves on the Boards of CVS Corporation, LLC, and YUM! Brands, Inc.

Christopher Lawrence also joined us as a Non Executive Director. Christopher is currently Co-Head of Investment Banking, Rothschild Inc. (North America), and was previously Chief Strategic Officer of Credit Suisse Group as well as a Vice Chairman of Credit Suisse First Boston.

We also announced that Virasb Vahidi had joined the Board as Chief Operating Officer. Virasb is an international business executive with a distinguished career encompassing senior finance, strategy and planning roles in global companies including AT&T Corp. and American Airlines, Inc.

## **Phorm, Inc**

### **Chairman's statement (continued)**

On 1 October 2007, we announced another senior appointment to our Board. Stephen J Heyer joined the Board as a Non Executive Director. A seasoned and innovative leader, operator, marketer/brand builder and strategist, Steve is currently the Co-Chairman and CEO of Fathom Studios and Vice Chairman of Mistral Acquisition Company. Steve was CEO of Starwood Hotels & Resorts Worldwide, and joined Starwood from The Coca Cola Company, where he served as President and COO. Prior to joining Coca-Cola, Steve was president and COO of Turner Broadcasting System, Inc., and a member of AOL Time Warner Inc's Operating Committee. Previously, Steve was President and COO of Young and Rubicam, Inc. Steve is a member of the Board of Directors of Lazard Ltd and Lazard Group, Mistral Acquisition Company, the National Collegiate Athletic Association and the Special Olympics.

At the same time, we announced the hiring of Stratis Scleparis as Group Chief Technology Officer (CTO). Stratis has over 20 year's experience in communications, IT and emerging technology and joined us from BT Retail, part of BT Group plc, where he was CTO.

Furthermore, on 15 January 2008, we appointed Greg Meyer as Senior Vice President, Global Product Development, who joined from Atlas, a division of aQuantive, where he was Senior Vice President Product and Technology.

The expertise and experience that these people have brought to Phorm is proving invaluable as our business gains further traction throughout the markets in which we operate and underlines our commitment to employing the best possible people to deliver upon our strategy.

#### **Strategy and business update**

2007 can be characterised as a year of building the foundations for our future success. In May we completed the reorganisation of the Company from 121Media, Inc. to Phorm, Inc. We also invested considerable time and funding in our technology and key infrastructure as well as internal processes that will enable us to deliver a first class and highly scalable platform, in addition to significantly strengthening our team.

I am delighted that the hard work and dedication of the team was rewarded soon after the year end, when on 14 February 2008, we announced exclusive agreements with three major UK ISPs – BT, Talk Talk and Virgin Media, which represent nearly 70% of the UK internet market, to adopt our online advertising platform, the Open Internet Exchange (OIX), and a consumer internet feature, Webwise. Implementation is on track and consumer trials are expected to begin in the near term, followed by roll-out across these networks.

Furthermore, we continue to be in advanced discussions with a number of other ISPs, both in the UK and internationally, and following extensive due diligence we have moved into the trial phase with a number of them. It is worth noting that we believe we are selected as the preferred partner by leading ISPs over our competitors based on the capabilities of our technology, our team and our approach to privacy. We will provide an update on these discussions in due course, when appropriate.

In addition, since announcing the launch of OIX and Webwise on 14 February 2008, Phorm has continued to make significant progress with the publishing and advertising community and is delighted with the enthusiastic response it has received to date.

A key differentiator of Phorm's technology is our ability to dispel the myth that in order to provide relevant advertising on the internet you need to store data. The fundamental principles behind our platform support the highest standards in user privacy and anonymity:

- Phorm will not and cannot ever store any personal information which can identify a user;
- Users will have a clear choice whether to turn Webwise on or off; and
- Our technology complies with all relevant data protection and privacy laws including RIPA (Regulation of Investigatory Powers Act) and the Data Protection Act.

## **Phorm, Inc**

### **Chairman's statement (continued)**

It is very pleasing to see that our commitment to these principles, and to open and transparent disclosure, has been recognised by leading privacy advocate Simon Davies, Managing Director of privacy consultancy 80/20 Thinking and director of Privacy International. Mr Davies and 80/20 Thinking recently conducted a Privacy Impact Assessment of our technology.

Also, as part of our commitment to the privacy of Internet users, we commissioned Ernst & Young LLP to conduct an independent examination of our systems and assertions. The following components of our privacy programme were examined:

- Phorm's privacy policy, controls and procedures ;
- Phorm's compliance with its stated privacy policy;
- Phorm employees' privacy policy training and compliance; and
- Data retention, integrity and security policies and procedures.

The resulting attestation report we received from Ernst & Young LLP confirmed that our systems have been designed specifically to protect the identity and other sensitive information of consumers – a great validation of our offering.

Furthermore, we have initiated a dialogue with the Information Commissioner's Office who are pleased with the way that we have engaged with technical experts and concerned individuals following the announcement of the service. We have also met with many other leading stakeholders in the area of online privacy, to share details of our technology and the response to date has been very encouraging.

Finally, during the course of 2007, we appointed leading global professional services firm Deloitte & Touche LLP as auditor to Phorm.

#### **Outlook**

We have made an exceptionally positive start to 2008 with the announcement of agreements with three key UK ISPs, but there is still a lot of work that needs to be done before we reach critical mass in the UK market. We will work closely with our ISP partners to ensure a smooth and timely roll out of our platform whilst continuing discussions with other potential partners at the ISP, advertiser and publisher level as well as developing our international programme. We have built an excellent team and a market leading technology platform and, as a result we look forward with great optimism to the opportunity that lies ahead for our company.

Kent Ertugrul



Chairman and Chief Executive

10 April 2008

# Phorm, Inc

## Directors' report

The directors present their annual report on the affairs of Phorm, Inc and its subsidiaries (together, the "Group") with the consolidated financial statements and auditors' report, for the year ended 31 December 2007.

The Company is incorporated in Delaware, United States and is therefore not subject to the disclosure requirements of the Companies Act in the United Kingdom. The directors have voluntarily disclosed additional information in this directors' report.

### Principal activities

Phorm is an innovative technology company specialising in behavioural and contextual online advertising. Its patent-pending technology, combined with its advertising industry and ISP partnerships, is designed to make online advertising truly relevant to each individual consumer, matching the advertiser with a targeted consumer on any page of the Internet. Phorm recognises people's online privacy concerns, and has created a consumer-friendly technology that is leading the industry in privacy standards. The technology does not require any download to the user's computer. Contextual and behavioural matching is based on content relevance, with no personally identifiable information ever recorded.

### Financial risk management objectives and policies

The financial risk management objectives and policies of the Group and the exposure of the Group to financial risks are disclosed within note 24 to the financial statements.

### Dividends

The Company has not made profits since inception and is unable to pay a dividend in respect of the period (2006: \$nil).

### Directors and their interests

The directors, who served throughout the year except as noted, were as follows:

Kent Ertugrul	
Virasb Vahidi	(appointed 21 May 2007)
Christopher Lawrence	(appointed 21 May 2007)
David Dorman	(appointed 21 May 2007)
Steven J Heyer	(appointed 1 October 2007)
David Svendsen	(resigned 26 April 2007)
Gerard Baz	(resigned 17 July 2007)
David Gwozdz	(resigned 26 April 2007)

## Phorm, Inc

### Directors' report (continued)

#### Directors and their interests (continued)

The beneficial interests in the common stock of the Company held by directors in service at the balance sheet date are detailed in the table below.

Directors	At 31 December 2007		At 31 December 2006	
	Number of common shares	Percentage of common stock	Number of common shares	Percentage of common stock
K Ertugrul	2,594,412*	21.38%	2,594,412*	23.13%
V Vahidi	-	-	-	-
D Dorman	-	-	-	-
C Lawrence	-	-	-	-
S Heyer	-	-	-	-
D Svendsen	N/A	N/A	57,308	0.51%
G Baz	N/A	N/A	1,729,161	15.42%
D Gwozdz	N/A	N/A	7,700	0.07%

\* Of the 2,594,412 shares, 629,527 are held by parties in which K Ertugrul has a beneficial interest.

The directors' interests in share options in the Company are detailed in the table below.

Directors		At	Granted	Exercised	Lapsed	At	Exercise price
		1 January 2007				31 December 2007	
K Ertugrul	(1)	180,707	-	-	-	180,707	£2.45
K Ertugrul	(2)	200,000	-	-	-	200,000	£2.12
K Ertugrul	(3)	500,000	-	-	-	500,000	£5.40
K Ertugrul	(4)	-	250,000	-	-	250,000	£18.05
V Vahidi	(5)	70,000	-	-	-	70,000	£9.88
V Vahidi	(6)	30,000	-	-	-	30,000	£9.88
V Vahidi	(7)	-	25,000	-	-	25,000	£18.05
V Vahidi	(4)	-	100,000	-	-	100,000	£18.05
D Dorman	(7)	100,000	-	-	-	100,000	£11.58
D Dorman	(8)	-	100,000	-	-	100,000	£13.83
C Lawrence	(9)	-	100,000	-	-	100,000	£13.83
S Heyer	(9)	-	50,000	-	-	50,000	£23.20

#### Vesting conditions:

- 1) The Option shares shall become exercisable on the later of (i) 31 December 2005 and (ii) the date on which it becomes apparent in the reasonable opinion of the Remuneration Committee of the Board of the Company that the consolidated earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Group has grown for two consecutive quarters following admission to the AIM market, and that the EBITDA for the second such quarter is not less than \$875,000.
- 2) Will vest in full upon the company reaching an average of \$3million in monthly net revenue, over a period of six consecutive months. The grants will expire if the beginning of this period is later than 19 April 2009.
- 3) The share options are exercisable, following vesting, until 7 June 2016 and will vest in 5 tranches of 100,000 dependent upon the share price of Phorm, Inc's common shares reaching the following levels: £100.00, 100,000 shares; £200.00, 100,000 shares; £300.00, 100,000 shares; £400.00, 100,000 shares; £500.00, 100,000 shares. Any options that have not vested by 7 June 2011 will lapse.

## **Phorm, Inc**

### **Directors' report (continued)**

#### **Directors and their interests (continued)**

- 4) The options vest based on the achievement of certain performance conditions relating to the signing of agreements with internet service providers (ISPs) and deployment of the OIX platform to a specified number of such ISP's internet users. Certain conditions have to be achieved by 31 December 2008 or 30 June 2009 (or such later date as agreed by the Remuneration Committee) or the options subject to the applicable condition that has not been met lapse.
- 5) Vest monthly over 4 years from 1 November 2006.
- 6) 25% vested on 1 November 2007 and the remainder vest over 36 months from 1 November 2008 for a total vesting period of 4 years.
- 7) 100% vested on modification of grant.
- 8) 25% vested on 3 August 2007 and 25% will vest on 3 August 2008, 3 August 2009, and 3 August 2010.
- 9) 25% vested on 10 January 2007 and 25% will vest on 10 January 2008, 10 January 2009, and 10 January 2010.

#### **Substantial shareholdings**

The company has not disclosed notified share interests in the Company in excess of 3% of the Company's common stock since the Company is not subject to the Disclosure and Transparency Rules and is not subject to the Listing Rule requirement in this area. The Company has provided disclosure in compliance with AIM Rule 26 on its website [www.phorm.com](http://www.phorm.com).

#### **Supplier payment policy**

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Group at 31 December 2007 were equivalent to 13 days purchases (2006: 18 days) purchases, based on the average daily amount invoiced by suppliers during the year.

#### **Charitable and political contributions**

The Group made no charitable or political contributions in the year (2006: \$nil).

#### **Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### **Employee consultation**

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

## **Phorm, Inc**

### **Directors' report (continued)**

#### **Post balance sheet events**

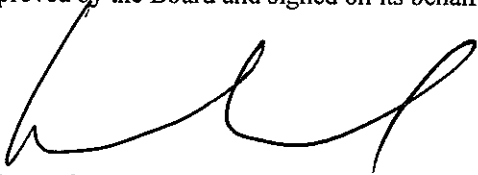
Details of significant events since the balance sheet date are contained in Note 25 to the financial statements.

#### **Auditors**

Deloitte & Touche LLP replaced HW Fisher & Company as auditors during the year.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'K Ertugrul', written over a horizontal line.

K Ertugrul  
Chairman and Chief Executive

10 April 2008

## **Phorm, Inc**

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The rules of the Alternative Investment Market (AIM) require the Company to prepare its financial statements in accordance with International Financial Standards (IFRSs) or an alternative generally accepted accounting framework specified by the AIM Rules. The directors have elected to prepare the financial statements in accordance with IFRSs as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with IFRS. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in both the United States and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditors' report to the members of Phorm, Inc**

We have audited the group financial statements (the "financial statements") of Phorm, Inc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and are properly prepared in accordance with IFRSs.

In addition we report to you if, in our opinion, the group has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited consolidated financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Independent auditors' report to the members of  
Phorm, Inc (continued)**

**Opinion**

In our opinion, the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of the group's loss for the year then ended.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
London

*10 April 2008*

# Phorm, Inc

## Consolidated income statement Year ended 31 December 2007

	Note	Year ended 31 December 2007			Year ended 31 December 2006		
		Before share based payment expense \$	Share based payment expense \$	After share based payment expense \$	Before share based payment expense \$	Share based payment expense \$	After share based payment expense \$
<b>Continuing operations</b>							
Revenue	3	-	-	-	1,272,254	-	1,272,254
Cost of sales		(294,098)	-	(294,098)	(403,306)	-	(403,306)
<b>Gross (loss)/profit</b>		<u>(294,098)</u>	<u>-</u>	<u>(294,098)</u>	<u>868,948</u>	<u>-</u>	<u>868,948</u>
Research and development		(3,082,736)	(716,301)	(3,799,037)	(476,658)	(161,978)	(638,636)
Sales and administrative expenses		(20,584,528)	(8,151,646)	(28,736,174)	(10,460,630)	(1,371,156)	(11,831,786)
<b>Operating loss</b>	5	<u>(23,961,362)</u>	<u>(8,867,947)</u>	<u>(32,829,309)</u>	<u>(10,068,340)</u>	<u>(1,533,134)</u>	<u>(11,601,474)</u>
Investment income	8			688,843			82,312
Financing expense	9			(8,816)			(16,186)
<b>Loss before tax</b>				<u>(32,149,282)</u>			<u>(11,535,348)</u>
Tax on loss on ordinary activities	10			(3,941)			(12,705)
<b>Net loss for the year</b>				<u><u>(32,153,223)</u></u>			<u><u>(11,548,053)</u></u>
Attributable to equity holders of the parent				(32,153,223)			(11,548,053)
Basic and diluted loss per share (\$)	11			(2.74)			(1.13)

## Phorm, Inc

### Consolidated statement of changes in equity Year ended 31 December 2007

	Share capital \$	Additional paid in capital \$	Warrants \$	Translation reserve \$	Accumulated Deficit \$	Total \$
At 1 January 2007	11,217	18,706,233	300,300	(280,896)	(15,512,365)	3,224,489
Loss for the year	-	-	-	-	(32,153,223)	(32,153,223)
Share-based payment charge	-	-	-	-	8,867,947	8,867,947
Issue of new stock	919	35,213,944	-	-	-	35,214,863
Exchange differences on translation of overseas operations	-	-	-	(48,310)	-	(48,310)
Transfer on exercise of warrants	-	300,300	(300,300)	-	-	-
At 31 December 2007	<u>12,136</u>	<u>54,220,477</u>	<u>-</u>	<u>(329,206)</u>	<u>(38,797,641)</u>	<u>15,105,766</u>

### Year ended 31 December 2006

	Share capital \$	Additional paid in capital \$	Warrants \$	Translation reserve \$	Accumulated Deficit \$	Total \$
At 1 January 2006	8,190	6,734,601	584,572	(174,221)	(5,497,445)	1,655,697
Loss for the year	-	-	-	-	(11,548,053)	(11,548,053)
Share-based payment charge	-	-	-	-	1,533,133	1,533,133
Issue of new stock	3,027	11,687,360	-	-	-	11,690,387
Exchange differences on translation of overseas operations	-	-	-	(106,675)	-	(106,675)
Transfer on exercise of warrants	-	284,272	(284,272)	-	-	-
At 31 December 2006	<u>11,217</u>	<u>18,706,233</u>	<u>300,300</u>	<u>(280,896)</u>	<u>(15,512,365)</u>	<u>3,224,489</u>

## Phorm, Inc

### Consolidated balance sheet 31 December 2007

	Note	2007 \$	2006 \$
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	661,172	128,614
<b>Total non-current assets</b>		<u>661,172</u>	<u>128,614</u>
<b>Current assets</b>			
Other receivables	14	1,350,235	594,063
Cash and cash equivalents	15	16,557,681	3,804,771
		<u>17,907,916</u>	<u>4,398,834</u>
<b>Total assets</b>		<u><u>18,569,088</u></u>	<u><u>4,527,448</u></u>
<b>Current liabilities</b>			
Trade payables	18	(529,370)	(156,736)
Other payables	19	(1,896,270)	(578,856)
Obligations under finance leases	21	(15,104)	(39,077)
Provisions	20	(621,114)	(492,742)
<b>Total current liabilities</b>		<u>(3,061,858)</u>	<u>(1,267,411)</u>
<b>Non-current liabilities</b>			
Obligations under finance leases	21	(5,486)	(11,303)
Provisions	20	(395,978)	(24,245)
<b>Total-non current liabilities</b>		<u>(401,464)</u>	<u>(35,548)</u>
<b>Total liabilities</b>		<u>(3,463,322)</u>	<u>(1,302,959)</u>
<b>Net assets</b>		<u><u>15,105,766</u></u>	<u><u>3,224,489</u></u>
<b>Equity</b>			
Common shares	16	12,136	11,217
Additional paid in capital		54,220,477	18,706,233
Warrants		-	300,300
Translation reserve		(329,206)	(280,896)
Accumulated deficit		(38,797,641)	(15,512,365)
<b>Stockholders' equity</b>		<u><u>15,105,766</u></u>	<u><u>3,224,489</u></u>

These financial statements were approved by the Board of Directors and authorised for issue on  
They were signed on its behalf by:

2008.

K Ertugrul  
Director

## Phorm, Inc

### Consolidated cash flow statement Year ended 31 December 2007

	Note	Year ended 31 December 2007 \$	Year ended 31 December 2006 \$
<b>Net cash used in operating activities</b>			
Net cash used in operating activities	23	(22,374,122)	(8,290,238)
Income tax paid		(3,941)	(12,705)
<b>Net cash used in operating activities</b>		<u>(22,378,063)</u>	<u>(8,302,943)</u>
<b>Cash flows used in investing activities</b>			
Interest received		688,843	82,312
Purchase of property, plant and equipment		(722,308)	(174,572)
<b>Net cash used in investing activities</b>		<u>(33,465)</u>	<u>(92,260)</u>
<b>Cash flows from financing activities</b>			
Finance lease interest paid		(8,816)	(16,186)
Repayment of obligations under finance leases		(41,609)	(44,760)
Proceeds from issue of shares, net of \$1,399,799 expenses	16	35,214,863	11,690,387
<b>Net cash flows from financing activities</b>		<u>35,164,438</u>	<u>11,629,441</u>
<b>Net increase in cash and cash equivalents</b>		12,752,910	3,234,238
Cash and cash equivalents brought forward		3,804,771	570,533
<b>Cash and cash equivalents carried forward</b>		<u>16,557,681</u>	<u>3,804,771</u>

Purchases of property, plant and equipment during the year amounting to \$11,819 (2006: \$nil) were financed by new finance leases.