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

Contents

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: $1.5million). 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.

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 out 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 will all relevant data protection and privacy laws including RIPA (Regulation of Investigatory Powers Act) and the Data Protection Act.

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

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)

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.

	At 31 December 2007		At 31 December 2006	
Directors	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 1 January 2007	Granted	Exercised	Lapsed	At 31 December 2007	Exercise price
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.

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.

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.

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:

K Ertugrul
Chairman and Chief Executive

10 April 2008

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

		Year ended 31 December 2007			Year ended 31 December 2006		
	Note	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 $
Continuing operations							
Revenue	3	-	-	-	1,272,254		1,272,254
Cost of sales		(294,098)	-	(294,098)	(403,306)	-	(403,306)
Gross (loss)/profit		(294,098)	-	(294,098)	868,948	-	868,948
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)
Operating loss	5	(23,961,362)	(8,867,947)	(32,829,309)	(10,068,340)	(1,533,134)	(11,601,474)
Investment income	8			688,843			82,312
Financing expense	9			(8,816)			(16,186)
Loss before tax				(32,149,282)			(11,535,348)
Tax on loss on ordinary activities	10			(3,941)			(12,705)
Net loss for the year				(32,153,223)			(11,548,053)
Attributable to equity holders of the parent				(32,153,223)			(11,548,053)
Basic and diluted loss per share ($)	11			(2.74)			(1.13)

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	12,136	54,220,477	-	(329,206)	(38,797,641)	15,105,766

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	11,217	18,706,233	300,300	(280,896)	(15,512,365)	3,224,489

Phorm, Inc

Consolidated balance sheet
31 December 2007

	Note	2007 $	2006 $
Assets			
Non-current assets			
Property, plant and equipment	12	661,172	128,614
Total non-current assets		661,172	128,614
Current assets			
Other receivables	14	1,350,235	594,063
Cash and cash equivalents	15	16,557,681	3,804,771
		17,907,916	4,398,834
Total assets		18,569,088	4,527,448
Current liabilities			
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)
Total current liabilities		(3,061,858)	(1,267,411)
Non-current liabilities			
Obligations under finance leases	21	(5,486)	(11,303)
Provisions	20	(395,978)	(24,245)
Total-non current liabilities		(401,464)	(35,548)
Total liabilities		(3,463,322)	(1,302,959)
Net assets		15,105,766	3,224,489
Equity			
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)
Stockholders' equity		15,105,766	3,224,489

These financial statements were approved by the Board of Directors and authorised for issue on 2008.
They were signed on its behalf by:

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 $
Net cash used in operating activities			
Net cash used in operating activities	23	(22,374,122)	(8,290,238)
Income tax paid		(3,941)	(12,705)
Net cash used in operating activities		(22,378,063)	(8,302,943)
Cash flows used in investing activities			
Interest received		688,843	82,312
Purchase of property, plant and equipment		(722,308)	(174,572)
Net cash used in investing activities		(33,465)	(92,260)
Cash flows from financing activities			
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
Net cash flows from financing activities		35,164,438	11,629,441
Net increase in cash and cash equivalents		12,752,910	3,234,238
Cash and cash equivalents brought forward		3,804,771	570,533
Cash and cash equivalents carried forward		16,557,681	3,804,771

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

Notes to the consolidated financial statements
Year ended 31 December 2007

1. Incorporation of Phorm Inc

Phorm, Inc (the "Company") was incorporated on 18 April 2007 in the state of Delaware in the United States of America. Its registered office is 2711 Centerville Road, Suite 400, City of Wilmington 19808, County of New Castle, Delaware, USA and principal place of business is the US. The nature of the Group's operations and its principal activities are set out on page 7.

On 3 May 2007, Phorm, Inc. acquired the entire share capital of 121Media, Inc. (now known as Phorm UK, Inc.). Each outstanding common share of capital stock of 121Media, Inc. was automatically converted into a share of the Company and the common shares of the Company were admitted to trading on the AIM market of the London Stock Exchange on 4 May 2007.

The reorganisation was accomplished by a merger of a wholly owned subsidiary of the Company with and into 121Media, Inc. pursuant to Section 251(g) of the Delaware General Corporation Law.

In accordance with IFRS 3 "Business Combinations", the acquisition of 121Media, Inc. by the Company has been accounted for as a reverse acquisition. The key features of this basis of consolidation are:

- The consolidated IFRS financial statements are a continuation of the financial statements of 121Media, Inc. and its subsidiaries and the retained earnings recognized are a continuation of those of 121Media, Inc immediately before the business combination.
- The consolidated income statement for the twelve months ended 31 December 2007 includes the results of 121Media, Inc. for the twelve months ended 31 December 2007 and of Phorm, Inc from 3 May 2007, the date of the reverse acquisition.
- The assets and liabilities of 121Media, Inc. and its subsidiaries are measured based on their pre-combination carrying amounts.
- The equity structure appearing in these consolidated financial statements reflects the equity structure of the legal parent, Phorm, Inc.
- Phorm, Inc. has been consolidated from the date of the reverse acquisition using the fair value of its assets and liabilities at that date. The cost of the acquisition was $nil and no goodwill arose on the acquisition.

At 3 May 2007, prior to the merger, Phorm, Inc. held $0.1 of cash and had issued 100 common shares of $0.001 each to 121Media, Inc. No other assets or liabilities existed on acquisition.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board, as adopted by the EU, effective at 31 December 2007, and therefore comply with Article 4 of the EU IAS Regulation.

This is the first year that Phorm, Inc and its subsidiaries (together the "Group") has presented its consolidated financial statements under IFRS. The Group's comparative information presented for 2006 was initially prepared under United Kingdom generally accepted accounting principles ("UK GAAP") and has been restated in accordance with IFRS. Details of the Group's transition to IFRS are included in Note 27. The Group applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") in determining its IFRS results. IFRS 1 includes a number of optional exemptions available to entities when they adopt IFRS for the first time. Details of the exemptions applied by the Group, as well as an explanation of the impact of IFRS, when compared to UK GAAP, are included in Note 27 of these financial statements.

Notes to the consolidated financial statements
Year ended 31 December 2007

2. Summary of significant accounting policies (continued)

Basis of preparation (continued)

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain assets and liabilities, which are measured at fair value in accordance with applicable IFRS's. The principal accounting policies adopted are set out below.

The financial statements have been presented in US dollars as that is the currency of the primary economic environment in which the Group operates.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year.

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Foreign currency

(i) <u>Functional and presentation currency</u>

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's only cash flows relate to the issuance of equity for which it receives proceeds in GBP sterling and the provision of inter-company loans in GBP sterling to other group companies. The functional currency of the Company has therefore been determined to be GBP sterling. The consolidated financial statements are presented in US dollars, which differs to the functional currency of the Company. A different presentation currency has been used as the principal operating subsidiary of the Company has a US dollar functional currency and consequently it is considered appropriate to present the Group's results and financial position in a currency consistent with such operating activities.

(ii) <u>Transactions and balances</u>

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2. Summary of significant accounting policies (continued)

Foreign currency (continued)

(iii) Group companies

On consolidation, the results and financial position of all the group entities and branches that have a functional currency different from the Company are translated into US Dollars as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates because they are considered to be an approximation to translating each transaction at the ruling rate; and
- All resulting exchange differences are recognized as a separate component of equity. Such translation differences are recognized as income or as expense in the financial period in which the related operations are disposed of.

Internally developed intangible assets: development costs

An intangible asset arising from development expenditure is recognized only when the Group can demonstrate technical feasibility, it has the intention to complete and ability to use or sell the asset, which is expected to generate sufficient future economic benefits, and the Group has the availability of resources to complete its development. Only expenditure that is attributable to the intangible asset during its development is capitalized.

To date, no amounts have been capitalized for product development as, in the opinion of the directors, it is not yet reasonably certain that sufficient future economic benefit will be generated to recover costs incurred. In particular, the commercial launch of the Group's services is dependent on a number of events which had not occurred at the balance sheet date, including the signing of definitive agreements with internet service providers to enable operation of the Group's software platform and the subsequent deployment to computer servers by the internet service providers.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Impairment of tangible fixed assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Assets that are not available for use are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Cash flow

The Group has elected to disclose its cash flows from operating activities using the indirect method that requires the profit or loss to be adjusted for the effects of non-cash movements, changes in working capital and items relating to investing and finance activities.

Notes to the consolidated financial statements
Year ended 31 December 2007

2. Summary of significant accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the item, as follows:

	%	Method
Computer hardware	50	Straight-line
Firniture and fixtures	33	Straight-line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with maturity of three months or less that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Trade and other payables

Trade payables are recognized initially at fair value, and are subsequently measured at amortised cost using the effective interest method. The directors consider that there is no significant difference between the nominal value and fair value of trade and other payables.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment. As permitted by its transitional provisions, the Group has applied IFRS 2 only to those options granted after 7 November 2002 and that had not yet vested at 1 January 2006.

Notes to the consolidated financial statements
Year ended 31 December 2007

2. Summary of significant accounting policies (continued)

Share-based payments (continued)

The Group issues equity-settled share-based payments to certain employees and consultants.

The cost of share-based compensation awards is recognized as an expense. Equity-settled share-based payments are measured at fair value. For share based payments that include market-based performance conditions, such conditions are taken into account in determining fair value. For share based payments with only non-market based performance conditions, these conditions do not affect the fair value calculated. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

For equity-settled share-based payments with market-based vesting conditions, the fair value is determined at the date of grant, having regard to the expected achievement of such performance conditions. Once determined, the expected achievement is not adjusted, even where the market-based vesting conditions are not subsequently met.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid in capital when the options are exercised.

Where the terms and conditions of equity-settled share-based payments are modified during the vesting period, the incremental fair value granted, being the difference between the fair value of the modified equity instrument and the original equity instrument as measured at the modification date, is recognised over the period from the date of the modification to the date when the modified instrument vests. This is in addition to the amount based on the grant date fair value of the original equity instrument, which continues to be recognised over the remainder of the vesting period.

Employer's National Insurance and social security taxes on share options

Certain share options result in employers' national insurance contributions (NIC) in the UK and social security taxes in the US. Provision for such costs is made on outstanding share options that are expected to be exercised, calculated at the latest enacted NIC rate or social security tax rate applied to the difference between the market value of the underlying shares at the balance sheet date and the option exercise price. This charge is allocated over the period from the date of grant to the end of the performance or service period. From that date to the actual date of exercise, the provision is adjusted by using the current market value of the shares. Where there is no performance period, full provision is made immediately.

Common shares and additional paid in capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Warrants

Any consideration on granting of warrants is credited directly to equity. On exercise, the proceeds received net of any directly attributable transaction costs are credited to common shares (nominal value) and additional paid in capital.

2. Summary of significant accounting policies (continued)

Post-employment benefits

The Group operates a defined contribution pension scheme. Contributions payable for the year are charged to the income statement as they fall due.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized:

Rendering of services

No revenues were recorded in 2007. In 2006, revenue was recognised on delivery of advertising based on a cost per thousand rate.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Cost of sales

Cost of sales comprise server co-location and hosting costs, predominantly fixed in nature, and variable costs of serving advertisements.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK corporation tax and Delaware state tax, is based on taxable profits for the year. Taxable profits differ from net profits as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are offset against deferred tax assets when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Any remaining deferred tax asset is recognized only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Current and deferred tax is recognized in the income statement, except when the tax relates to items charged or credited directly in equity, in which case the tax is also recognized in equity.

2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Although these results are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates.

Critical accounting judgements

The critical accounting judgements and assumptions are described below.

Share based payments

Application of IFRS 2 requires the Group to make judgements regarding certain assumptions which are required in determining the fair value of equity-settled share based options or which affect the expected number of options to be issued. These assumptions, therefore, affect the expense recorded in the income statement. The judgements that are material to the financial statements include the following:

- expected volatility in share price;
- expected option life;
- expected forfeitures; and
- the likelihood of any relevant performance conditions being met, which requires an assessment of both future business performance and in some instances, market-based performance.

Changes in these assumptions would have a material impact on the financial statements. The assumptions applied by the Group to options granted in the year are disclosed in note 17.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Employer National Insurance contributions and US social security on Share Option Gains

The Group has provided for national insurance contributions and US social security taxes on share options in accordance with the IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*". The liability is calculated on the intrinsic value of the option, being the difference in market price of shares in Phorm, Inc at the valuation date and exercise price of the option multiplied by the latest enacted National Insurance contribution rate or social security tax rate. As at 31 December 2007, the provision for national insurance contributions and social security taxes on share options was $1,017,092 (2006: $516,987). There is uncertainty over the future share price of Phorm, Inc common shares and this may result in a material change to the required provision.

Notes to the consolidated financial statements
Year ended 31 December 2007

2. Summary of significant accounting policies (continued)

New standards and interpretations not applied

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS /Amendment	Title	Application date of standard	Application date for Group
IFRS 8	Operating segments	Supersedes IAS 14 from 1 January 2009	1 January 2009
IAS 23 amendment	Borrowing costs	1 January 2009	1 January 2009
IFRIC 11	IFRS 2—Group and treasury share transactions	1 March 2007	1 January 2008
IFRIC 12	Service concession arrangements	1 January 2008	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008	1 January 2009
IFRIC 14	IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	1 January 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application when the relevant standards come into effect for periods commencing on or after 1 January 2008.

3. Revenue

	2007 $	2006 $
Advertising revenue	-	1,272,254
Interest income	688,843	82,312
	688,843	1,354,566

Notes to the consolidated financial statements
Year ended 31 December 2007

4. Segment information

The Directors consider that the Group has a single business segment, being the generation of revenues from on-line advertisers through the application of Phorm developed software.

The Directors have determined the Group's primary segment to be the geographical segments in which the Group operates.

Segment information about the geographic markets in which the Group operates is presented below.

	UK Year ended 31 December 2007 $	USA Year ended 31 December 2007 $	Consolidated Year ended 31 December 2007 $
Result			
Segment result	(14,988,294)	(17,841,015)	(32,829,309)
Investment income			688,843
Financing expense			(8,816)
Loss before tax			(32,249,147)
Tax			(3,941)
Loss after tax			(32,253,088)

	UK Year ended 31 December 2007 $	USA Year ended 31 December 2007 $	Consolidated Year ended 31 December 2007 $
Other information			
Capitalised property, plant and equipment	560,449	173,678	734,127
Depreciation	(114,114)	(87,455)	(201,569)
Share-based payments	(1,823,650)	(7,044,297)	(8,867,947)
Balance sheet			
Assets			
Segment assets	1,255,101	756,306	2,011,407
Cash and cash equivalents			16,557,681
Total assets			18,569,088
Liabilities			
Segment liabilities	(1,746,121)	(1,696,611)	(3,442,732)
Obligations under finance leases			(20,590)
Total liabilities			(3,463,322)

Notes to the consolidated financial statements
Year ended 31 December 2007

4. Segment information (continued)

	UK Year ended 31 December 2006 $	USA Year ended 31 December 2006 $	Consolidated Year ended 31 December 2006 $
Revenue			
External sales	277,070	995,184	1,272,254
Result			
Segment result	(2,349,343)	(9,252,131)	(11,601,474)
Investment income			82,312
Financing expense			(16,186)
Loss before tax			(11,535,348)
Tax			(12,705)
Loss after tax			(11,548,053)

	UK Year ended 31 December 2006 $	USA Year ended 31 December 2006 $	Consolidated Year ended 31 December 2006 $
Other information			
Capitalised property, plant and equipment additions	45,251	129,321	174,572
Depreciation	(38,923)	(144,118)	(183,041)
Share-based payments	(287,969)	(1,245,164)	(1,533,133)
Balance sheet			
Assets			
Segment assets	356,541	366,136	722,677
Cash and cash equivalents			3,804,771
Total assets			4,527,448
Liabilities			
Segment liabilities	(1,014,864)	(237,715)	(1,252,579)
Obligations under finance leases			(50,380)
Total liabilities			(1,302,959)

Notes to the consolidated financial statements
Year ended 31 December 2007

5. Loss for the year

	2007 $	2006 $
Loss for the year is stated after charging/(crediting):		
Depreciation of property, plant and equipment		
- owned	186,546	133,041
- leased	15,023	50,000
Loss on disposal of property, plant and equipment	-	42,830
Operating lease rentals	161,467	152,070
Staff costs (see note 6)	20,170,082	5,843,388
Research and development expenditure (including staff costs of $0.5m in 2007 and $0.2m in 2006)	3,799,037	638,636
Reversal of impairment loss recognised on trade receivables	(52,092)	-
Net foreign exchange (gains)/losses	(56,786)	169,860
Net gain on loans and receivables	(740,935)	(82,312)
Net loss on financial liabilities measured at amortised cost	8,816	16,186

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2007 $	2006 $
Fees payable for:		
- the audit of the Group's Annual Report	83,732	46,400
- other services related to taxation	61,916	-
- other services related to remuneration advice	114,429	-
- other attest services	51,419	62,669
	311,496	109,069

Services for remuneration advice comprised of the provision of benchmarking data for certain executive and director roles, and advice to the Company on tax implications for the Company of long term incentive awards, including share options, granted by the Company.

6. Staff costs

	2007 $	2006 $
Wages and salaries		
- general	9,310,498	3,579,614
- share-based payment expense	8,867,947	1,533,133
Social security costs		
- general	689,980	216,499
- national insurance & social security taxes on share-based payments	1,036,918	497,290
Pension costs	264,739	16,852
	20,170,082	5,843,388

The pension charge represents payments made to a defined contribution plan.

Notes to the consolidated financial statements
Year ended 31 December 2007

6. Staff costs (continued)

Average monthly number of employees, including executive directors:

	2007 No.	2006 No.
Research and development	4	2
Sales and administration	58	34
	62	36

7. Directors' remuneration

	2007 $	2006 $
Emoluments	1,081,677	763,981
Amounts receivable (other than share options) under long-term incentive schemes	-	-
Company contributions to money purchase pension schemes	-	-
Gains made on exercise of share options	-	-
Compensation for loss of office	-	-
Sums paid to third parties in respect of directors' services	-	-
Excess retirement benefits of directors and past directors	-	-
	1,081,677	763,981

	2007 No.	2006 No.
The number of directors who:		
Are members of a money purchase pension scheme	-	-
Exercised options over shares in the Company	-	3
Had awards receivable in the form of shares under a long-term incentive scheme	-	-
	-	3

	2007 $	2006 $
Remuneration of the highest paid director:		
Emoluments	633,333	343,320
Company contributions to money purchase schemes	-	-
	633,333	343,320

Notes to the consolidated financial statements
Year ended 31 December 2007

8. Investment income

	2007 $	2006 $
Bank interest receivable	688,843	82,312

9. Financing expense

	2007 $	2006 $
Finance lease interest	8,816	16,186

10. Income tax

	2007 $	2006 $
Income statement		
Delaware state tax	3,941	12,705
Factors affecting the tax charge		
Loss on ordinary activities before taxation	(32,149,282)	(11,535,348)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax for the year of 30% (2006: 30%):	(9,644,785)	(3,441,154)
Effects of:		
Expenditure not allowable for tax purposes	24,315	26,810
Capital allowances in excess of depreciation	(63,865)	70,465
Unrelieved tax losses and other deductions arising in the year	9,684,335	3,343,879
Other	3,941	12,705
Current tax charge	3,941	12,705

Factors that may affect future tax charges

The Group has tax losses of $48.2m carried forward comprising $43.7m arising in the United States that are available over 20 years from the year incurred and $4.5m in the United Kingdom available indefinitely in the United Kingdom for offset against future taxable profits. Deferred tax assets have not been recognized as they may not be utilised until suitable taxable profits arise and it is not yet sufficiently probable that such profits will be available in the future.

Notes to the consolidated financial statements
Year ended 31 December 2007

11. Loss per share

The basic loss per share is calculated by dividing the loss attributable to equity shareholders by the weighted average number of shares in issue. In calculating the diluted loss per share, share options outstanding have not been taken into account where the impact of these is anti-dilutive.

The weighted average number of shares in the year was:

	2007 No.	2006 No.
Basic and diluted	11,715,754	10,257,408

	2007 $	2006 $
Loss attributable to ordinary shareholders	(32,153,223)	(11,548,053)
Basic and diluted loss per share	(2.74)	(1.13)

	No.	No.
Number of options that are anti-dilutive	1,186,345	411,464

12. Property, plant and equipment

	Computer hardware $	Fixtures and fittings $	Total $
Cost			
At 1 January 2006	500,776	13,720	514,496
Additions	105,747	68,825	174,572
Disposals	(452,684)	(14,148)	(466,832)
31 December 2006	153,839	68,397	222,236
Additions	728,566	5,561	734,127
31 December 2007	882,405	73,958	956,363
Accumulated depreciation			
At 1 January 2006	331,728	2,854	334,582
Charge for the year	158,509	24,532	183,041
Disposals	(420,784)	(3,217)	(424,001)
31 December 2006	69,453	24,169	93,622
Charge for the year	178,616	22,953	201,569
At 31 December 2007	248,069	47,122	295,191
Net book value			
At 31 December 2007	634,336	26,836	661,172
At 1 January 2007	84,386	44,228	128,614

Notes to the consolidated financial statements
Year ended 31 December 2007

12. Property, plant and equipment (continued)

As at 31 December 2007, $9,266 (2006: $12,500) of the carrying value of computer hardware related to assets subject to finance leases.

At 31 December 2007 and 31 December 2006, the Group had no contractual commitments for the acquisition of property, plant and equipment.

13. Subsidiaries

Details of the Company's subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Percentage holding of ordinary share capital	Principal activity	Country of Incorporation
Phorm UK, Inc (formerly 121 Media, Inc.)	100%	Behavioural and contextual online advertising	Delaware, USA
121Media (Europe) Limited	100%	Dormant	UK
121Media (UK) Limited	100%	Dormant	UK

14. Other receivables

	2007 $	2006 $
Value Added Tax recoverable	466,555	211,397
Rent deposit	282,894	218,735
Other receivables	69,292	46,893
Prepayments and accrued income	531,494	117,038
	1,350,235	594,063

$96,291 (2006: $109,496) of rent deposit is due for repayment after more than one year.

15. Cash and cash equivalents

	2007 $	2006 $
Cash and cash equivalents	16,557,681	3,804,771

Cash and cash equivalents earns interest at floating rates based on daily bank deposit rates. Investment funds held on overnight money markets totalled $15.8m as at 31 December 2007 at a daily rate of 5.1%. The average rate returned over the period was 5.35%.

There were no differences between book values and the fair value of cash and cash equivalents at 31 December 2007 and at 31 December 2006.

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Year ended 31 December 2007

16. Share capital

	2007 $	2006 $
Authorised:		
20,000,000 common shares of $0.001 each	20,000	13,000
Issued and fully paid:		
At 1 January	11,217	8,190
Issued during the year:		
- Common shares placed on AIM	604	1,911
- On exercise of warrants	31	391
- On exercise of share options	284	725
At 31 December	12,136	11,217

No warrants (2006: 31,473) remained outstanding at the balance sheet date. Warrants were issued in prior periods to investors on subscription of common stock, to directors and to advisers and employees for service rendered. All warrants were issued prior to 1 January 2006. The Group has applied the transitional provisions of IFRS 2 to such equity-settled share based payments as such warrants had fully vested prior to 1 January 2006.

The movement in share capital is provided in the table below:

	2007 No.	2006 No.
Issued and fully paid:		
Common shares of $0.001 each at start of year	11,216,642	8,190,110
Issued during the year of $0.001 each		
- Common shares placed on AIM	603,808	1,911,454
- On exercise of warrants	31,473	391,156
- On exercise of share options	284,301	723,922
Common shares of $0.001 each at close of year	12,136,224	11,216,642

On 2 March 2007, the Company issued 169,808 common shares of $0.001 each with a total nominal value of $169.8 following placing of common shares on AIM for cash consideration of $5.0m.

On 22 June 2007, the Company issued 434,000 common shares of $0.001 each with a total nominal value of $434 following placing of shares on AIM for cash consideration of $29.1m, net of expenses of $1.4m.

During the year ended 31 December 2007, the Company issued 284,301 common shares of $0.001 each with a total nominal value of $284 following exercise of stock options. Cash consideration received was $0.9m.

During the year ended 31 December 2007, 31,473 warrants were exercised for cash consideration received of $0.2m.

On 6 February 2006, 28 September 2006 and 6 December 2006, the Company issued 1,911,454 common shares of $0.001 each with a total nominal value of $1,911 following placing of common shares on AIM for cash consideration of $11.5m.

During the year ended 31 December 2006, the Company issued 723,922 common shares of $0.001 each with a total nominal value of $724 following exercise of stock options. Cash consideration received was $1.1m.

During the year ended 31 December 2006, 391,156 warrants were exercised for cash consideration received of $0.3m.

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Year ended 31 December 2007

17. Share-based payment expense

	2007 $	2006 $
IFRS 2 share-based payment charge	8,867,947	1,533,133
Employer national insurance contributions and US social security tax charge	1,036,918	497,290
	9,904,865	2,030,423

The Group has a share scheme whereby options over the common shares of the company are granted to employees, consultants and directors. Options are granted at the mid market price at the close of the day of the grant and must be exercised within 10 years of grant unless the employment is terminated in which case options generally must be exercised within 90 days of termination. Options are forfeited if the employee leaves the Group before the option vests. In general, options granted have one of three different vesting criteria:

- Time vesting – no performance conditions attached (other than continued employment). Vesting generally occurs over three or four years;
- Non-market based performance – share options only vest once certain performance targets, unrelated to the Phorm share price, are met; and
- Market-based performance – share options only vest once certain share price targets are met.

The reconciliation of option movements during the year ended 31 December 2007 and 31 December 2006 is shown below:

	No.	2007 Weighted average exercise price £	No.	2006 Weighted average exercise price £
Outstanding at 1 January	2,532,240	£3.68	1,825,801	£1.26
Granted during the year	1,145,964	£18.29	1,756,000	£4.99
Lapsed during the year	(115,350)	£5.68	(325,639)	£3.66
Exercised during the year	(284,301)	£1.61	(723,922)	£0.74
Outstanding at 31 December	3,278,553	£8.89	2,532,240	£3.68
Exercisable at 31 December	710,063	£5.42	519,012	£1.38

The weighted average share price at the date of exercise for stock options exercised during the year was £27.10 (2006: £8.54).

Notes to the consolidated financial statements
Year ended 31 December 2007

17. Share based payment expense (continued)

The following options over common shares were in existence at 31 December 2007 and 31 December 2006:

	2007			2006		
Range of exercise price £	No.	Weighted average exercise price (£)	Weighted average remaining life (years)	No.	Weighted average exercise price (£)	Weighted average remaining life (years)
£0.01 - £2.49	1,224,560	1.66	7.54	1,591,546	1.65	8.58
£2.50 - £4.99	121,778	4.64	8.48	130,694	4.59	9.40
£5.00 - £9.99	800,750	7.09	8.70	650,000	6.43	9.53
£10.00-£14.99	360,000	12.97	8.95	160,000	11.90	9.56
£15.00-£19.99	375,000	18.05	10.00	-	-	-
£20.00-£24.99	255,550	21.80	9.91	-	-	-
£25.00-£29.99	140,914	27.30	9.58	-	-	-
Total	3,278,552	8.89	8.57	2,532,240	3.68	8.93

In 2007, options were granted on 14 February 2007, 6 March 2007, 26 July 2007, 1 October 2007, 6 November 2007, 11 December 2007 and 19 December 2007. The aggregate of the estimated fair values of the options granted on those dates is $21.5m. In 2006, options were granted on 28 February 2006, 23 March 2006, 19 April 2006, 27 April 2006, 1 June 2006, 7 June 2006, 24 July 2006, 26 July 2006 and 1 November 2006. The aggregate of the estimated fair values of the options granted on those dates is $7.3m. The inputs into the option valuation model are as follows:

2007 grants:

Grant date	14 Feb 2007	14 Feb 2007	6 Mar 2007	26 Jul 2007	1 Oct 2007
Pricing model	Monte Carlo	Black Scholes	Black Scholes	Black Scholes	Black Scholes
Share price at grant	£9.95	£9.95	£13.83	£27.30	£23.20
Exercise price	£9.95	£9.95	£13.83	£27.30	£23.20
Vesting criteria	(1)	(2)	(3)	(2)	(4)
Expected volatility	46.29%	46.3%	49.4%	51.2%	50.6%
Expected life (years)	n/a	5.6	5.3	4.7	6.03
Risk free rate	5.45%	5.12%	5.11%	5.33%	4.94%
Dividend yield	0%	0%	0%	0%	0%
Estimated forfeiture rate p.a.	5%	12%	5%	12%	12%
Probability non-market based performance criteria is met	N/A	N/A	N/A	N/A	N/A
Fair value per option	£4.94	£4.98	£7.03	£13.41	£12.64

Grant date	1 Oct 2007	6 Nov 2007	11 Dec 2007	19 Dec 2007	19 Dec 2007
Pricing model	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Black Scholes
Share price at grant	£23.20	£21.00	£20.38	£18.05	£18.05
Exercise price	£23.20	£21.00	£20.38	£18.05	£18.05
Vesting criteria	(2)	(2)	(2)	(5)	(6)
Expected volatility	50.6%	50.7%	50.3%	50.3%	50.3%
Expected life (years)	6.25	6.03	6.03	5.00	5.00
Risk free rate	4.95%	4.84%	4.58%	4.55%	4.55%
Dividend yield	0%	0%	0%	0%	0%
Estimated forfeiture rate p.a.	12%	12%	12%	5%	0%
Probability non-market based performance criteria is met	N/A	N/A	N/A	100%	N/A
Fair value per option	£12.84	£11.42	£10.94	£8.87	£8.87

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17. Share based payment expense (continued)

2006 grants:

Grant date	**28 Feb 2006**	**28 Feb 2006**	**23 March 2006**	**19 April 2006**	**27 April 2006**
Pricing model	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Black Scholes
Share price at grant	£1.54	£1.54	£2.07	£2.12	£3.00
Exercise price	£1.54	£1.54	£2.07	£2.12	£3.00
Vesting criteria	(7)	(8)	(7)	(8)	(7)
Expected volatility	72.25%	58.16%	72.25%	55.63%	72.25%
Expected life (years)	5.79	5.00	5.79	5.00	5.79
Risk free rate	4.31%	4.31%	4.42%	4.56%	4.69%
Dividend yield	0%	0%	0%	0%	0%
Estimated forfeiture rate p.a.	12%	12%	12%	3%	12%
Probability non-market based performance criteria is met	N/A	100%	N/A	100%	N/A
Fair value per option	£1.02	£0.83	£1.37	£1.11	£2.00

Grant date	**1 June 2006**	**1 June 2006**	**7 June 2006**	**24 July 2006**	**26 July 2006**
Pricing model	Black Scholes	Black Scholes	Monte Carlo	Black Scholes	Black Scholes
Share price at grant	£4.85	£4.85	£5.40	£11.58	£12.45
Exercise price	£4.85	£4.85	£5.40	£11.58	£12.45
Vesting criteria	(7)	(8)	(9)	(10)	(2)
Expected volatility	72.25%	54.07%	72.25%	55.83%	61.50%
Expected life (years)	5.79	5.00	N/a	5.00	6.03
Risk free rate	4.72%	4.72%	4.72%	4.71%	4.75%
Dividend yield	0%	0%	0%	0%	0%
Estimated forfeiture rate p.a.	12%	12%	0%	5%	12%
Probability non-market based performance criteria is met	N/A	100%	N/A	100%	N/A
Fair value per option	£3.23	£2.52	£0.70	£6.13	£7.63

Grant date	**7 Nov 2006**	**7 Nov 2006**	**7 Nov 2006**
Pricing model	Black Scholes	Black Scholes	Monte Carlo
Share price at grant	£9.88	£9.88	£9.88
Exercise price	£9.88	£9.88	£9.88
Vesting criteria	(2)	(11)	(12)
Expected volatility	61.50%	61.50%	61.50%
Expected life (years)	6.03	6.02	N/a
Risk free rate	4.87%	4.87%	4.87%
Dividend yield	0%	0%	0%
Estimated forfeiture rate p.a.	12%	12%	12%
Probability non-market based performance criteria is met	N/A	N/A	N/A
Fair value per option	£6.07	£6.06	£5.64

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17. Share based payment expense (continued)

Vesting criteria:

1. 25% immediately then monthly over 36 months if 5 day average stock price lower than £50 as at 14 February 2008. As disclosed later in this note, these vesting conditions were subsequently removed.
2. At the rate of 1/8th after 6 months, and 1/48th subsequently, for a total vesting period of 48 months.
3. 25% vested on 3 August 2007 and 25% on 3 August 2008, 3 August 2009, 3 August 2010
4. 25% vested on 1 October 2007 and 25% on 1 October 2008, 1 October 2009, 1 October 2010
5. 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.
6. 100% vested immediately.
7. At the rate of 1/6th after 6 months, and 1/36th subsequently, for a total vesting period of 36 months.
8. Conditional upon achieving average monthly net revenues of $3m over a period of 6 months consecutively. It is estimated this will be met within 3 years from date of grant.
9. At the rate of 1/5th for achieving each incremental increase of £100 in the share price up to a maximum of £500. It is estimated this will be met within 5 years from date of grant.
10. At the rate of 1% for each 1% of targeted number subscribers becoming subject to qualifying agreements.
11. At the rate of 1/48th per month for a total vesting period of 48 months.
12. Vesting is conditional upon the 5 day average share price prior to 11 July 2007 not being above £50.00. If so, 25% vests immediately and remainder over 36 months. If condition is not met, options are cancelled. As disclosed later in this note, these vesting conditions were subsequently removed.

The expected volatility was based upon historical volatility of the company's share price from IPO to date of grant. Where management believed there to be insufficient historic share price data, the average volatility of four comparator companies was applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Market based performance conditions have been incorporated into the determination of the fair value of relevant stock options through the use of a Monte Carlo simulation model.

The likelihood of non market based performance conditions being satisfied has been incorporated into the number of options expected to vest by reference to the Group's business plan approved by the Board.

On 17th May 2007 the vesting criteria associated with the grant dated 24th July 2006 was removed. In accordance with IFRS2 "Share based payments" the options were revalued as at the modification date with no incremental increase in fair value.

Notes to the consolidated financial statements
Year ended 31 December 2007

17. Share based payments (continued)

On 26 July 2007 the vesting criteria associated with certain grants dated 14 February 2007 and 7 November 2006 were removed. The incremental increase in fair value as at modification date of £2.38 and £0.46 was charged to the income statement in accordance with the vesting profile.

Grant date	**24 July 2006**	**14 Feb 2007**	**14 Feb 2007**	**7 Nov 2006**	**7 Nov 2006**
Modification date	17 May 2007	26 July 2007	26 July 2007	26 July 2007	26 July 2007
Valuation criteria	Pre and post modification	Pre modification	Post modification	Pre modification	Post modification
Pricing model	Black Scholes	Monte Carlo	Black Scholes	Monte Carlo	Black Scholes
Share price at date of modification	£16.75	£27.30	£27.30	£27.30	£27.30
Exercise price	£11.58	£9.95	£9.95	£9.88	£9.88
Expected volatility	47.9%	51.21%	51.21%	51.21%	51.20%
Expected life (years)	3.7	n/a	4.3	n/a	4.0
Risk free rate	5.44%	5.70%	5.36%	5.82%	5.38%
Dividend yield	0%	0%	0%	0%	0%
Estimated forfeiture rate p.a.	5%	5%	5%	12%	12%
Probability non-market based performance criteria is met	n/a	n/a	n/a	n/a	n/a
Fair value per option	£9.06	£17.85	£20.23	£19.65	£20.11

The Group recognised total expenses of $8,867,947 in 2007 (2006: $1,533,133) related to equity-settled share-based payment transactions.

At the year end the company has accrued $1,017,092 (2006: $516,987) in respect of potential employers' National Insurance Contribution arising on exercise of the options by United Kingdom employees and the equivalent social security taxes applicable in the US. This is included in provisions (see note 20).

18. Trade payables

	2007	**2006**
	$	**$**
Other financial liabilities:		
Trade payables	529,370	156,736

Trade payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken is normally 13 days (2006: 18 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and therefore no interest is charged on any such payables.

19. Other payables

	2007	**2006**
	$	**$**
Other taxes and social security	332,464	55,956
Other payables	44,081	11,445
Accruals and deferred income	1,519,725	511,455
	1,896,270	578,856

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Year ended 31 December 2007

20. Provisions

	2007 $	2006 $
Employer's NIC and US social security taxes accrual on share-based payments	1,017,092	516,987
Disclosed as:		
Current liabilities	621,114	492,742
Non-current liabilities	395,978	24,245
	1,017,092	516,987

The provision for employers National Insurance contributions and US social security taxes on share-based payments represents the expected obligation for employment taxes payable the Company on exercise of share options by employees. The actual cost to the Company will be determined by reference to the gain made by the employee at the date of exercise of share options. The charge has been calculated based on the number of options expected to be exercised, calculated at the latest enacted tax rate applied to the difference between the exercise price and the share price at the balance sheet date, recognised over the period from the date of grant to the end of the performance or service period. From that date to the actual date of exercise, the provision is adjusted by using the current market value of the shares. Where there is no performance period, full provision is made immediately.

The timing of the associated cash outflows is uncertain in nature since it is dependent on the date of exercise by the option holder. The Group estimates that such outflows will generally occur within 0-5 years. The amount ultimately payable is dependent upon the share price of the Company at the date of exercise. As noted above, the provision has been estimated by reference to the intrinsic gain using the share price at the balance sheet date.

The movement on the provision is shown below:

	2007 $
At 1 January	516,987
Increase in provision – charge for the year	1,036,918
Amounts used in the year	(536,813)
At 31 December	1,017,092

21. Obligations under finance leases

The Group has finance leases for certain items of computer hardware and machinery. The leases are for a term of 3 years.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2007		2006	
	Minimum lease payments $	Present value of minimum lease payments $	Minimum lease payments $	Present value of minimum lease payments $
Not later than one year	16,421	15,104	47,025	39,077
Later than one year and no later than five years	5,928	5,486	11,756	11,303
Total minimum lease payments	22,349	20,590	58,781	50,380
Less amounts representing finance charges	(1,759)	-	(8,401)	-
Present value of minimum lease payments	20,590	20,590	50,380	50,380
Disclosure of present value of minimum lease payments:				
Non-current liabilities		5,486		11,303
Current liabilities		15,104		39,077
		20,590		50,380

Finance leases bear an inherent interest rate of 19.86% per annum, which is fixed at the contract date for the duration of the lease term. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The lessor's rights are secured on the leased assets.

Notes to the consolidated financial statements
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22. Operating lease payment commitments

The group leases property under non-cancellable leases expiring in 2012.

The lease payments under operating leases recognized as an expense in the year was $161,467 (2006: $152,020).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007 $	2006 $
Not later than 1 year	166,400	156,832
Later than 1 year and no later than 5 years	726,865	701,223
Later than 5 years	-	192,042
	893,265	1,050,097

The operating lease payments represent rentals payable by the Group for the New York office.

Other than in respect of such operating leases, the Group had no commitments at 31 December 2007 (2006: $nil) and no contingent liabilities.

23. Reconciliation of operating loss to cash used in operating activities

	2007 $	2006 $
Operating loss	(32,829,309)	(11,601,474)
Depreciation charges	201,569	183,041
Loss on disposal of property, plant and equipment	-	42,830
Share-based payment expense	8,867,947	1,533,133
(Increase)/decrease in other receivables	(756,172)	1,381,023
Increase in trade, other payables and provisions	2,141,843	171,209
	(22,374,122)	(8,290,238)

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	2007 $	2006 $
Cash and cash equivalents	16,557,681	3,804,771

24. Financial instruments

The Group's financial instruments comprise other receivables and trade and other payables, finance leases and cash resources that have arisen directly from equity issues. Other than finance leases, the Group does not have external borrowings. The Group has not entered into derivatives transactions and does not trade in financial instruments as a matter of policy.

The Group's financial assets and liabilities are summarised below:

Categories of financial instruments

	2007 $	2006 $
Current financial assets		
Cash and cash equivalents	16,557,681	3,804,771
Rent deposit and other receivables	352,186	265,628
Assets not meeting the definition of a financial asset		
Other receivables: taxes and related statutory obligations	466,555	211,397
Other receivables: prepayments and accrued income	531,494	117,038
Total current assets	17,907,916	4,398,834
Financial liabilities at amortised cost:		
Trade payables	(529,370)	(156,736)
Other payables	(38,781)	(8,313)
Obligations under finance leases	(15,104)	(39,077)
Liabilities not meeting the definition of a financial liability:		
Taxes and related statutory obligations	(332,464)	(55,956)
Other payables	(5,300)	(3,142)
Accruals and deferred income	(1,519,725)	(511,455)
Provision for employers NIC and social security taxes accrual on share based payments	(621,114)	(492,742)
Total current liabilities	(3,061,858)	(1,267,411)
Obligations under finance leases	(5,486)	(11,303)
Provisions	(395,978)	(24,245)
Non-current liabilities	(401,464)	(35,548)

No financial assets have been pledged as security. No allowances for losses have been made for other financial assets (see credit risk below)

Credit risk

The Group's credit risk is primarily attributable to its cash and cash equivalent balances held with banks. The credit risk on liquid funds is limited because all funds are deposited within a financial institution carrying a AA1 credit rating assigned by international credit rating agencies.

The Group considers its maximum exposure to credit risk to be as set out in the table above shown under current financial assets. All such assets are neither past due nor impaired.

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24. Financial instruments (continued)

Interest rate risk

The Group does not have any borrowings. The interest rate on the finance lease is fixed and therefore management do not believe the Group is exposed to cashflow interest rate risk on its financial liabilities.

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates or where applicable, short-term deposit rates.

The impact of a change in interest rates on the loss of the Group is summarised below:

	2007	2006
	$	$
Impact of 1% change in interest rates on profit or loss	165,577	38,048

Such a change would not affect stockholders' equity.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group enters into contracts in US Dollars and Sterling and most costs are incurred in US dollars and Sterling. The Group does not use currency derivatives to hedge future transactions and cash flows. The carrying amount of the Group's monetary assets and liabilities by currency at the reporting date is:

	Assets		Liabilities	
	2007	2006	2007	2006
	$	$	$	$
USD	2,528	2,535	-	-
GBP	24,174,058	3,631,678	(2,230,981)	(879,721)

The Group raised $34.1m during the 12 months to 31 December 2007 following two placings on AIM. The underlying currency of these placings was Sterling (£17.1m). The Group has largely retained the Sterling cash balance since it envisages significant sterling denominated expenditure during the year ending 31 December 2008 as the Group launches commercially in the UK. Following launch, the Group plans to expand into other international markets at which point the currency profile of cash and cash equivalents may be altered to better meet the Group's expected cash flows.

The Group is mainly exposed to movements in the US dollar: sterling exchange rate. The following table details the Group's sensitivity to a 10 per cent change in US dollar against sterling. The sensitivity analyses of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity where pound sterling strengthens against the respective currency.

	2007	2006
	$	$
Impact of 10% change in GBP:USD exchange rate on profit or loss	(37,371)	(203,573)
Impact of 10% change in GBP:USD exchange rate on reserves	732,850	331,807

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24. Financial instruments (continued)

Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained losses.

There are no externally imposed capital requirements to which the Company is subject.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors. Liquidity risk is managed through an assessment of short, medium and long-term cash flow forecasts and monitoring forecast and actual cash flows and matching cash resources with the maturity profiles of financial liabilities. To date, the Group's liquidity has been substantially dependent on its ability to raise capital by way of equity issue. The Group expects this to continue until the Group begins to generate operating cash inflows.

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Group is entitled and intends to repay the liability before its maturity.

	Weighted average effective interest rate %	Less than 1 month $	1–3 months $	3 months to 1 year $	1–5 years $	5+ years $	Total $
2007							
Trade payables	-	529,370	-	-	-	-	529,370
Obligations under finance leases	19.86%	3,994	8,219	2,890	5,486	-	20,590
Other payables	-	38,781	-	-	-	-	38,781
	19.86%	572,145	8,219	2,890	5,486	-	58,741
2006							
Trade payables	-	156,736	-	-	-	-	156,736
Obligations under finance leases	26.72%	2,915	6,005	30,157	11,303	-	50,380
Other payables	-	8,313	-	-	-	-	8,313
	26.72%	167,964	6,005	30,157	11,303	-	215,429

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24. Financial instruments (continued)

The following table details the Group's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month $	1–3 months $	3 months to 1 year $	1–5 years $	5+ years $	Total $
2007							
Non-interest bearing cash deposits	-	789,591	-	-	-	-	789,591
Variable interest rate cash deposits	5.1%	15,768,090	-	-	-	-	15,768,090
Rent deposit and other receivables	-	-	40,000	29,293	186,602	96,291	352,186
	5.1%	16,557,681	40,000	29,293	186,602	96,291	16,909,867
2006							
Non-interest bearing cash deposits	-	300,883	-	-	-	-	300,883
Variable interest rate cash deposits	3.7%	3,503,888	-	-	-	-	3,503,888
Rent deposit and other receivables	-	-	-	156,132	-	109,496	265,628
	3.7%	3,804,771	-	156,132	-	109,496	4,070,399

25. Post balance sheet events

On 22 February 2008, Phorm announced a Special Meeting of Stockholders to be held 13 March 2008. Stockholders were asked to consider amendments to the Company's certificate of incorporation. The amendments were designed to reflect current practice for Delaware public corporations and to position the Company for the next stage of its corporate development.

On 13 March 2008, Phorm announced that all resolutions put the special meeting on 13 March 2008 of stockholders were duly passed. The Amended and Restated Certificate of Incorporation increases the authorised common stock of the Company from 20,000,000 to 200,000,000 shares and creates an additional authorised class of stock, being 20,000,000 shares of blank-check Preferred Stock.

On 19 March 2008, Phorm announced that bookrunners Canaccord Adams Limited and Morgan Stanley & Co. International plc, on behalf of the Company conditionally placed with investors 1,610,000 new common shares of US$0.001 in the capital of the Company (the "Placing Shares") at £20.00 per share, to raise approximately £32 million (US$65 million) before expenses. The Placing Shares were admitted to trading on AIM on 27 March 2008. The Placing Shares represented approximately 11.6 per cent of the enlarged issued common share capital of the Company. Following the Placing, the total issued share capital of the Company comprised 13,831,224 common shares with a nominal value of US$0.001 each, each common share conveying the right to one vote.

Notes to the consolidated financial statements
Year ended 31 December 2007

26. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The following transactions were carried out with related parties:

	2007	2006
	$	$
(a) Provision of director services		
Consultancy payments to K.Ertugrul	-	307,852
Consultancy payments to Bowen Limited on behalf of T. Bowen	-	132,967
Consultancy payments to D. Svendsen	24,453	46,893
Consultancy payments to G.Baz	-	28,801
	24,453	516,513

Services are bought from related parties on normal commercial terms and conditions.

No amounts were owed to the directors at 31 December 2007 (2006: $38,083).

	2007	2006
	$	$
(b) Key management compensation		
Salaries and other short-term employee benefits	2,741,518	722,000
Post-employment benefits: defined contribution schemes	62,316	42,000
Equity settled share based payment expense	6,441,042	456,462
	9,244,876	1,220,462

The remuneration of the directors and 6 members of the executive team, who are the key management personnel of the Group, is set out above in aggregate for each of the categories specified by IAS 24 Related Party Disclosures. Further information about the remuneration of directors is provided in note 7.

An advance of $99,865 has been granted to one member of key management in respect of future services. This balance remains outstanding as at 31 December 2007 (2006: $8,934).

An accrual of $80,261 has been recognised in respect of services performed by one member of key management. This is expected to be paid in full by 30 September 2008.

One member of key management received $57,697 in respect of provision of consultancy services. No amounts were outstanding as at 31 December 2007.

27. Transition to IFRS

For all periods up to and including the year ended 31 December 2006, the Group prepared its financial statements in accordance with UK generally accepted accounting practice (UK GAAP). The financial statements for the year ended 31 December 2007 were the first the Group was required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Accordingly, the Group has prepared financial statements that comply with IFRS applicable for the period beginning 1 January 2007. In preparing the financial statements, the Group has applied IFRS from 1 January 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 "First time adoption of IFRS".

This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 January 2006 and its previously published UK GAAP financial statements for the year ended 31 December 2006.

Notes to the consolidated financial statements
Year ended 31 December 2007

27. Transition to IFRS (continued)

IFRS 1 "First Time Adoption of International Financial Reporting Standards"

IFRS 1 sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its accounting policies for the year ending 31 December 2007 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 January 2006.

The standard provides a number of optional exemptions to this general principle. The exemptions adopted by the Group are set out below:

Share-based payment

In accordance with the transitional provisions of IFRS 2 "Share-based Payment" and as permitted by IFRS 1, the expense recognized in the income statement only relates to grants made during the financial period and grants made after 7 November 2002 that had not fully vested at 1 January 2006.

Restatement of financial information under IFRS

An explanation of how the transition from superseded policies to IFRS has affected the Group financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Consolidated income statement

	Year ended 31 December 2006			
	UK GAAP	Effect of transition to IFRS	Adjustment due to error identified under previous GAAP	IFRS
	$	$	$	$
Continuing operations				
Revenue	1,272,254	-	-	1,272,254
Cost of sales	(403,306)	-	-	(403,306)
Gross profit	868,948	-	-	868,948
Research and development	(638,636)	-	-	(638,636)
Sales and administrative expenses	(11,766,951)	-	(64,835)	(11,831,786)
Operating loss	(11,536,639)	-	(64,835)	(11,601,474)
Investment revenue	82,312	-	-	82,312
Finance costs	(16,186)	-	-	(16,186)
Loss before taxation	(11,470,513)	-	(64,835)	(11,535,348)
Taxation on loss on ordinary activities	(12,705)	-	-	(12,705)
Loss on ordinary activities after taxation	(11,483,218)	-	(64,835)	(11,548,053)

Notes to the consolidated financial statements
Year ended 31 December 2007

27. Transition to IFRS (continued)

Consolidated balance sheet

	Year ended 31 December 2006			
	UK GAAP	**Effect of transition to IFRS**	**Adjustment due to error identified under previous GAAP**	**IFRS**
	$	**$**	**$**	**$**
Non-current assets				
Property, plant and equipment	384,857	-	(256,243)	128,614
Intangible assets	48,827	-	(48,827)	-
Total non-current assets	433,684	-	(305,070)	128,614
Current assets				
Trade receivables	-	-	-	-
Other receivables	594,063	-	-	594,063
Cash and cash equivalents	3,804,771	-	-	3,804,771
Total current assets	4,398,834	-	-	4,398,834
Total assets	4,832,518	-	(305,070)	4,527,448
Current liabilities				
Trade payables	(156,736)	-	-	(156,736)
Other payables	(578,856)	-	-	(578,856)
Obligations under finance leases	(39,077)	-	-	(39,077)
Provisions	(696,506)	-	203,764	(492,742)
Total current liabilities	(1,471,175)	-	203,764	(1,267,411)
Non-current liabilities				
Obligations under finance leases	(11,303)	-	-	(11,303)
Provisions	(24,245)	-	-	(24,245)
Total non-current liabilities	(35,548)	-	-	(35,548)
Total liabilities	(1,506,723)	-	203,764	(1,302,959)
Net assets	3,325,795	-	(101,306)	3,224,489
Equity				
Share capital	11,217	-	-	11,217
Additional paid in capital	18,706,233	-	-	18,706,233
Other reserves	19,404	-	-	19,404
Retained earnings	(15,411,059)	-	(101,306)	(15,512,365)
Equity attributable to equity holders of the parent	3,325,795	-	(101,306)	3,224,489

Notes to the consolidated financial statements
Year ended 31 December 2007

27. Transition to IFRS (continued)

Reconciliation of equity

	At 1 January 2006 $	At 31 December 2006 $
Shareholders' equity under previous GAAP	1,971,236	3,325,795
Adjustments: Correction of errors identified under previous GAAP:		
Website development costs (note (i))	-	(48,827)
Software development costs (note (ii))	(324,889)	(256,243)
Share options NI (note (iii))	9,350	203,764
Shareholders' equity under IFRS	1,655,697	3,224,489

Notes: Errors identified under previous GAAP

In accordance with the requirements of IFRS 1 "First-time adoption of IFRS" paragraph 41, the Company has separately identified in the reconciliations above errors made relating to the application of UK GAAP in previous periods. Further information is provided below in respect of these items:

(i) As at 31 December 2006, the Group had recorded an intangible fixed asset for capitalised website costs with a net book value of $48,827 (1 January 2006 - $nil). Such costs are capitalisable under UK GAAP where the conditions set out in UITF Abstract 29 "Website Development Costs" are met. This requires, amongst other conditions, that the website will generate sales or other revenues directly. As the Company's website did not have the capacity to generate revenue, management has reversed this amount as an error and expensed the costs in the period in which they arose, being the six months ended 31 December 2006.

(ii) As at 31 December 2006, the Group had recorded an intangible fixed asset for capitalised software development costs with a net book value of $256,243 (1 January 2006 - $324,889). Such costs were capitalisable under UK GAAP where the conditions set out in SSAP 13 "Accounting for Research and Development" are met. This requires, amongst other conditions, that technological feasibility and commercial viability has been established for the products under development and that recovery of costs is reasonably assured. The Directors have not been able to satisfy themselves that all of these conditions had been achieved by the historic reporting dates. Consequently, amounts previously capitalised have been expensed in the period in which they were incurred as an error.

(iii) As required, under UK GAAP, the Company adopted FRS 20 "Share-based payment" in the year ended 31 December 2006, resulting in the recognition of the cost of share options at fair value. Management, having taken independent expert advice, have subsequently determined that the assumptions applied in determining the fair value of the options contained errors, relating to the expected life assumption, where the contractual term had been applied rather than the expected option term, and with respect to the expected volatility. Management have revised the fair value of options granted, and have adjusted the share option expense to reflect these revised fair values. As a consequence the fair value charge on options has been understated by $279,068 in the year ended 31 December 2006 and the accrual for employers NIC was overstated by $203,764 at 31 December 2006, as a result of the inclusion in error of National Insurance on options held by non UK employees and an under-accrual due to incorrect vesting assumptions (1 January 2006 - $9,350 overstatement).

Notes to the consolidated financial statements
Year ended 31 December 2007

27. Transition to IFRS (continued)

Adjustments arising on adoption of IFRS

No adjustments affecting the income statement or balance sheet have been identified as a result of the adoption of the accounting policies set out in note 2.

Cash flow statement

Other than reclassification between captions, there are no material differences between the cash flow statement presented under IFRS and the cash flow statement presented under previous UK GAAP.