



18 June 2009

Phorm, Inc. (“Phorm” or the “Company”)

Final Results

Phorm (AIM: PHRM and PHRX), the personalisation technology company, today announces its audited financial statements for the year ended 31 December 2008.

Highlights:

Year to date 2009

- Launch of Webwise Discover, the personalised content consumer and publisher proposition
- Launch of a substantial international market trial with KT, the largest ISP in South Korea
- Engagement with ISPs in 15 markets, including eight of the top ten globally
- Completion of restructuring, launched during 2008, with forecast monthly cash expenses now reduced to \$1.8 million per month
- As at 31 May 2009, cash of \$12.8 million, subsequently supplemented with successful equity fundraising of \$24 million (before expenses)

Year to 31 December 2008

- Exclusive agreements with three UK ISPs: BT, TalkTalk and Virgin Media
- Completion of market trial with BT, under the BT Webwise brand
- Changes in both executive management team and the Board, substantially enhancing the Company’s strategic and operational capabilities
- Successful equity fund-raising of \$65 million completed

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Chairman and CEO's Statement

The opportunity

I am delighted to provide my report on the financial accounts for the year to December 2008. This has been a very exciting year for Phorm and I have structured my report to you as follows:

- Executive Summary
- The Need for Relevance
- Webwise Discover – the solution
- Strategy and Operational Update
- Financial Report provided by Phorm CFO Andy Croxson

Executive Summary

Phorm is truly different. Most companies seek to innovate within the same technological framework – by either creating better websites or web applications. Phorm is creating a new paradigm which allows existing websites and advertisers to become audience-aware, in a privacy friendly way. This will enhance materially consumers' online experience, and allow all within the online ecosystem to monetise fully their contribution, be it the provision of access or the creation and publication of content.

The Need for Relevance

“Knowing your audience” is considered to be one of the most basic requirements of effective communication. Yet on a daily basis, a huge amount of online information is broadcast blind. Whether it be advertising or content, we believe that there is such a *low expectation of relevance* on the part of consumers that much of what is published is instantly discarded. This unsatisfactory experience, we believe, results from the fact that the Internet was not fundamentally designed to deliver relevance. Information is carried to the browser but reflects very little back to the source. It is like a conversation in which the person doing the talking gets little or no feedback on what the listener wants to hear.

The impact of **audience blindness** to advertising can be seen everywhere: social network sites gathering hundreds of millions of users are unable to find an effective, scalable business model. The same is true of video sites, news sites, blogs and instant messaging applications. In fact this is an issue faced by virtually every page on the web except for the fortunate few which combine scale, an advertising sales infrastructure, and content related to a limited set of topics such as cars and travel. A few sites, such as search engines, have been highly successful at extending that range of topics to the so-called “long tail” of advertisers. However, what is striking is the mismatch between the long tail of advertisers and the long tail of web pages themselves.

The lack of audience awareness is not limited to advertising. Content has the same problem. Just as online advertisers have a hard time reaching their audience, there is also a fundamental mismatch between those seeking online content and those producing it. Search engines have become the primary way in which we navigate between content sources. We search, then we browse, then

we search again. Whichever way you see it, it is clear that the business of *putting the right information in front of the right user is still very much in its infancy*. For that reason, content producers struggle daily to engage their audience. So, even when the audience is found, monetising it is still a challenge. Websites and content providers spend considerable sums on search engines and other mechanisms in order to attract the attention of the right person.

Webwise Discover – the solution

Launched at the beginning of June, Webwise Discover shows that content and advertising are two sides of the same coin. Utilising Phorm’s existing technology platform, users will have the right content brought to them automatically. By harnessing the Phorm system, it has become possible to help all websites to deliver to consumers a content experience that is not only more relevant, but also more engaging and personally satisfying.

We believe that Webwise Discover can make a substantial impact on this lack of audience awareness. By harnessing their position as the provider of access to the Internet, we see Internet Service Providers (“ISPs”) as the missing link in achieving the goal of providing relevance at scale. Improving the current inefficiency with which users are presented with useful information represents an enormous value creation opportunity for websites, advertisers, ISPs and especially the consumers, which depend on all three for their daily Internet experience. We believe that Webwise Discover can help reshape the very way that people browse, and by doing so, this application can create significant value for all.

Strategy and Operational update

Phorm has been developing and refining its technology in conjunction with leading ISPs for a number of years. It is taking longer to deploy in the UK than originally anticipated. As a result, in parallel, we have focused on the development of multiple international markets. We believe that this strategy will increase our speed to market and reduce the dependency on any single market or ISP. In addition, our technological solutions have been enhanced through both the development of more network-friendly products, as well as our consumer-facing proposition, Webwise Discover. These enhancements will help to accelerate progress on the company’s five **core initiatives**:

- ISP business development
- Web publisher business development
- Technology development
- Privacy Enhancement
- Building the Phorm team

ISP business development – We are extending our geographic footprint through partner ISPs globally and developing a highly scalable, cost-efficient model capable of rapid, parallel expansion in a number of simultaneous opportunities.

Webwise Discover enhances the proposition to ISPs by providing them with the following key benefits:

- a non-financial consumer proposition which enhances the core ISP proposition – browsing the web;
- a gateway to consumer acceptance leading to a potentially substantial stream of advertising revenue; and
- a distinctive portal strategy that offers the automatic creation of a personalised web page. This allows them to revisit the original ISP strategy of monetising users through a portal offering.

ISPs – UK

In February of last year, we announced that we had secured the participation of the three leading UK ISPs. In September 2008, following a great deal of preparation, BT conducted the first public trial of Phorm's technology. The trial was essentially technological in nature and a number of lessons were learned from the experience, which will be applied to roll-outs moving forward. Amongst these are a) developing an offline solution which operates on a copy of the data stream rather than the original version, thereby minimizing network impact; b) introducing a network-based opt-out system for those not participating in the proposition; and c) enhancing the consumer proposition through Webwise Discover.

Although considerable time has elapsed between announcements with our ISP partners, much work continues to be done in the background.

ISPs – Korea

On 21 May 2009, we announced that we had initiated a trial with leading ISP Korea Telecom, the incumbent telecom company which accounts for 44% of Korea's broadband base. Korea has approximately 15 million broadband customers, making it the sixth largest broadband market in the world. With household penetration of around 90%, Korea has a higher broadband take-up than the UK, US and Japan. This is significant for a number of reasons:

- Timelines in future international deployments can be significantly compressed as the efficiencies derived from the UK experience accelerate adoption overseas.
- Phorm's technology is applicable worldwide and can meet the toughest localisation challenges (both Asian characters and very high bandwidth networks).
- Phorm's business model can be applied to any market and to any ISP.
- Our numerous conversations with ISPs globally are bearing fruit, even if the time to market can be long

Our work in Korea demonstrates that we have made significant progress with all of the necessary participants in the online ecosystem – advertisers, publishers and ad networks.

We are excited at Korea being the first market in which we will be launching Webwise Discover. One of the benefits of working with large numbers of ISPs is

that experience gained with one can be rapidly applied to others. Webwise Discover is one of many such examples.

Web Publisher business development

By providing Webwise Discover free of charge to web publishers with no obligation to enter into a commercial advertising relationship, Phorm is able to demonstrate the potential of its audience-awareness solution to large numbers of websites. It is thereby also able to demonstrate the power of a website/ISP partnership to create a compelling consumer experience which reflects well on the brands of both the ISP and the website. This strategy also provides a useful means of engaging in large-scale advertising partnerships with those websites that choose to do so.

Technology development – We are developing tools capable of offering a groundbreaking proposition to the content and advertising communities and a seamless integration into both ISP networks and web publisher interfaces. We are developing the technology to support next generation business models, which will be announced in due course.

Privacy Enhancement – We are redefining online privacy by pioneering a fully anonymous, “data minimization by design” approach. We will provide users with unavoidable notice and a means by which to offer consumers persistent choice as to whether to opt-in or opt-out at the network level.

Building the Phorm team – We are developing a board, management structure and team which is appropriate to the company’s rapidly evolving, challenging large-scale opportunity. We are very fortunate to have been able to attract a small team of highly efficient and seasoned senior executives to our uniquely interesting opportunity. Over the past year, while reducing our monthly overhead cost considerably, we have been joined by the following:

- Nan Richards: Deputy CEO – former President of Turner Broadcasting System Europe.
- Andy Croxson: CFO and COO - former Managing Director of Ingenious Consulting.
- Mike Moore: Global Commercial Director – former General Manager of Digital at the Telegraph Media Group.
- Sarah Simon: Financial, Strategic and Policy Development Officer – former Managing Director at Morgan Stanley responsible for European Media and Internet Equity Research.
- Josh Smith: Global Head of Strategy – former Strategy Manager at Spectrum Value Partners.
- Sharon O’Leary: General Counsel – former Executive Vice President & Chief Legal Officer of Vonage Holdings, Inc.
- Daniel Park: CEO Phorm Korea – former Senior Vice President of SK Communications’ Search and Portal Division (second largest portal) and previously MD of Overture Korea.

Board changes - On 1 December 2008, the Company announced changes to its Board. Steven Heyer, David Dorman, Christopher Lawrence and Virasb Vahidi stepped down from the Board and were replaced by the following non-executive directors: Norman Lamont, Kip Meek, Stefan Allesch-Taylor and Stephen Partridge-Hicks.

Future growth

The success and speed of engagement that we have seen in Korea has highlighted the international nature and appeal of the proposition. As a result, we are increasing our focus on international markets, leveraging our experience from both the UK and Korea.

Meanwhile, we announced on 10 June 2009 our success in raising new equity capital of £15 million. Given current uncertainty in the financial markets, we are in a fortunate position to have been able to raise money from both new and existing shareholders. The proceeds will enable us to build on the success in the UK and Korea, assisting us in our efforts to move forward to commercial deployment whilst also ensuring that we can support business development efforts with ISPs in multiple markets around the world.

Conclusion

We have constructed a highly efficient and scalable business development capability. We continue to make very good progress internationally. We are actively engaged with ISPs in over 15 markets, including eight of the top ten, as measured by online advertising spend. With a strong financial position, and Phorm's Webwise Discover proposition warmly welcomed by consumers, ISPs and publishers, we look to the future with great optimism.

Financial report provided by Phorm CFO Andy Croxson

Operating losses for the year were \$49.8 million (2007: \$32.8 million). The operating loss includes a non-cash share-based payment charge of \$7.4 million (2007: \$8.9 million) and restructuring costs of \$3.7 million. Losses after taxation were \$48.0 million (2007: \$32.2 million). Loss per share was \$3.57 (2007: \$2.74).

For the six months to 30 June 2008, we reported an operating loss (before non-cash share-based payment charges) of \$19.7 million; this compares to \$22.6 million in the second half of the year, which includes restructuring costs of \$3.7 million.

Whilst operating losses increased compared to 2007, the Company has taken actions during the final quarter of the year to reduce its operating cost run-rate significantly. Current forecasts show an expected average monthly run rate for cash outflow of £1.1 million (\$1.8 million). This included reducing the scale of the Group's operations in the United States and centralizing core operations in the UK leading to further reductions in headcount, salaries, professional fees and other general and administrative costs. Notwithstanding the reduction in our monthly run-rate, the adoption of more efficient practices, particularly in terms of business development, has enabled us to increase our effectiveness significantly.

During the course of 2008, the Company benefited from continuing support from its investors. On 19 March 2008, we announced the completion of an institutional equity fundraising, which raised an additional \$65 million for the Company before expenses. On 10 June 2009 we announced an additional equity fundraising of \$24.2 million before expenses. In these current times of uncertainty in the financial markets, we are in a fortunate position to have been able to raise money from both new and existing shareholders.

Our balance sheet at 31 December 2008 showed net assets of \$22.4 million (2007: \$15.1 million) with cash and cash equivalents of \$23.2 million (2007: \$16.6 million) and virtually no debt. Together with these existing cash resources, the additional funds raised in June 2009 will enable the Group to move forward to commercial deployment in the UK and Korea whilst providing funds to support our business development efforts with ISPs in other markets.

Net cash used in operating activities was \$42.4 million (2007: \$22.4 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 year (net of issue costs) of \$61.2 million (2007: \$35.2 million).

Going concern, liquidity and funding

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out earlier in this statement and in the Directors' report. 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.

At 31 December 2008, the Group had cash resources of \$23.2 million (2007 - \$16.6 million) and virtually no debt. In June 2009, the Group raised a further \$24.2 million (£15 million) before expenses, by way of an equity placement.

For the first half of 2008, we reported net cash used in operating activities of \$18.0 million. This has increased to \$24.3 million in the second half of 2008. However, as stated above, the actions the Group has taken during the fourth quarter of 2008 have significantly reduced the rate of cash usage within the business. At 31 May 2009, the Group held cash of \$12.8 million, a reduction of \$10.4 million over the five-month period since the year end, which included \$0.8 million of non-recurring restructuring costs.

Given the early stage of the Group's activities, the Group's cash flow forecasts are subject to a number of uncertainties, including but not limited to the timing of commercial deployment of the Group's services, take-up rates by consumers, publishers and advertisers and the net revenue per advert that will flow to the Group. In evaluating going concern, the directors have taken into account such uncertainties. Having regard to the Group's cost run rate and existing cash resources and taking account of reasonably possible changes in trading performance, the Group's forecasts show that the Group should be able to operate within its existing cash resources, including the proceeds from the additional equity placement in June 2009.

The directors have established processes to ensure that costs are controlled in line with the Group's forecasts, and to regularly monitor and re-forecast the Group's cash position. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to enable the Group to continue in operational existence for the foreseeable future. Accordingly, the directors have continued to adopt the going concern basis in preparing the annual report and accounts.

Post balance sheet events

On 30 March 2009, Phorm announced that it was beginning a market trial with leading Korean Internet service provider (ISP) Korea Telecom ("KT"). Further information is included within the Chairman and CEO's Statement on page 5. On 21 May 2009, Phorm announced the commencement of the market trial with KT.

On 10 June 2009, Phorm announced that, through a placing undertaken by Mirabaud Securities LLP and Evolution Securities Limited, on behalf of the Company, Phorm had conditionally placed with institutional investors 3,333,333 new common shares of US\$0.001 in the capital of the Company (the "Placing shares") at £4.50 per share, to raise approximately £15 million (US\$24 million) before expenses. The shares were admitted for trading on AIM on 12 June 2009, satisfying the conditions of the placement. The Placing Shares represent approximately 19.4% of the enlarged issued common share capital of the Company.

Compliance and privacy

Phorm takes protecting privacy and legal compliance very seriously. The Company has worked closely with legal advisers and various stakeholders to ensure that its services can and will comply with all relevant legislative requirements when launched commercially. Specifically, the Department for

Business Innovation and Skills (formerly BERR) has confirmed that Phorm's system is capable of being operated in a lawful, appropriate and transparent fashion.

The Phorm Service Privacy Policy, which can be found at the Group's website, www.phorm.com covers the collection and use of non-personal data through Phorm's Webwise and OIX technologies.

During 2008, the Internet Advertising Bureau published its "Good Practice Principles for Online Behavioural Advertising". Phorm is one of the founding signatories to adopt these standards, alongside other key industry names such as Google, Yahoo, AOL and Microsoft. The principles set out clearly the guidelines for good practice in the most rapidly growing area of online advertising and have the support of Information Commissioner's Office (ICO), the independent data protection regulator. As the Group expands into new markets, these same standards of adherence to relevant legislative requirements will be followed.

Phorm, Inc
Consolidated income statement
Year ended December 31 2008

	Note	Year ended 31 December 2008			Year ended 31 December 2007		
		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	-	-	-	-	-	-
Cost of sales		(517,216)	-	(517,216)	(294,098)	-	(294,098)
Gross loss		<u>(517,216)</u>	<u>-</u>	<u>(517,216)</u>	<u>(294,098)</u>	<u>-</u>	<u>(294,098)</u>
Research and development		(6,002,998)	(1,132,863)	(7,135,861)	(3,082,736)	(716,301)	(3,799,037)
Sales and administrative expenses		<u>(35,919,648)</u>	<u>(6,252,473)</u>	<u>(42,172,121)</u>	<u>(20,584,528)</u>	<u>(8,151,646)</u>	<u>(28,736,174)</u>
Operating loss	5	<u>(42,439,862)</u>	<u>(7,385,336)</u>	<u>(49,825,198)</u>	<u>(23,961,362)</u>	<u>(8,867,947)</u>	<u>(32,829,309)</u>
Investment income	8			1,806,104			688,843
Financing expense	9			<u>(3,749)</u>			<u>(8,816)</u>
Loss before tax				<u>(48,022,843)</u>			<u>(32,149,282)</u>
Tax on loss on ordinary activities	10			<u>-</u>			<u>(3,941)</u>
Net loss for the year				<u><u>(48,022,843)</u></u>			<u><u>(32,153,223)</u></u>
Attributable to equity holders of the parent				(48,022,843)			(32,153,223)
Basic and diluted loss per share (\$)	11			(3.57)			(2.74)

Phorm, Inc
Consolidated balance sheet
31 December 2008

	Note	2008 \$	2007 \$
Assets			
Non-current assets			
Property, plant and equipment	12	713,874	661,172
Total non-current assets		<u>713,874</u>	<u>661,172</u>
Current assets			
Other receivables	14	1,823,700	1,350,235
Cash and cash equivalents	15	23,246,726	16,557,681
		<u>25,070,426</u>	<u>17,907,916</u>
Total assets		<u><u>25,784,300</u></u>	<u><u>18,569,088</u></u>
Current liabilities			
Trade payables	18	(734,693)	(529,370)
Other payables	19	(2,631,405)	(1,896,270)
Obligations under finance leases	21	(10,068)	(15,104)
Provisions	20	(23,192)	(621,114)
Total current liabilities		<u>(3,399,358)</u>	<u>(3,061,858)</u>
Non-current liabilities			
Obligations under finance leases	21	(15,238)	(5,486)
Provisions	20	-	(395,978)
Total non-current liabilities		<u>(15,238)</u>	<u>(401,464)</u>
Total liabilities		<u>(3,414,596)</u>	<u>(3,463,322)</u>
Net assets		<u><u>22,369,704</u></u>	<u><u>15,105,766</u></u>
Equity			
Common shares	16	13,815	12,136
Additional paid in capital		115,442,602	54,220,477
Translation reserve		(13,651,565)	(329,206)
Accumulated deficit		(79,435,148)	(38,797,641)
Stockholders' equity		<u><u>22,369,704</u></u>	<u><u>15,105,766</u></u>

Phorm, Inc
Consolidated cash flow statement
Year ending 31 December 2008

	Note	Year ended 31 December 2008 \$	Year ended 31 December 2007 \$
Net cash used in operating activities			
Net cash used in operating activities	23	(42,354,599)	(22,374,122)
Income tax paid		-	(3,941)
		<u>(42,354,599)</u>	<u>(22,378,063)</u>
Net cash used in operating activities			
Cash flows used in investing activities			
Interest received		1,806,104	688,843
Purchase of property, plant and equipment		(784,709)	(722,308)
		<u>1,021,395</u>	<u>(33,465)</u>
Net cash flows from/(used in) investing activities			
Cash flows from financing activities			
Finance lease interest paid		(3,749)	(8,816)
Repayment of obligations under finance leases		(26,618)	(41,609)
Net proceeds from issue of shares	16	61,223,804	35,214,863
		<u>61,193,437</u>	<u>35,164,438</u>
Net cash flows from financing activities			
Net increase in cash and cash equivalents			
Cash and cash equivalents brought forward		19,860,233	12,752,910
		16,557,681	3,804,771
Effect of foreign exchange changes		(13,171,188)	-
		<u>23,246,726</u>	<u>16,557,681</u>
Cash and cash equivalents carried forward			

The full audited financial statements for the year to December 31 2008 can be found on the Investor section of the Phorm website.

<http://investors.phorm.com/reports.php>

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About Phorm:

Phorm is a global personalisation technology company that makes content and advertising more relevant to the consumer. Phorm's innovative platform preserves user privacy and delivers a more interesting online experience. Phorm's partners include leading Internet Service Providers (ISPs), Publishers, Ad Networks and Advertisers.

Phorm is a Delaware, US incorporated company, with offices in New York, Seoul, Moscow and London.

The Company was admitted to the AIM market of the London Stock Exchange in 2004 and has over 140 employees.

For more information, please visit: www.phorm.com