**27 June 2014**

# Phorm Corporation Limited

("Phorm" or the "Company")

**Final Results for the Year Ended 31 December 2013**

Phorm (AIM: PHRM), a leading internet personalisation technology company, announces its audited final results for the year ended 31 December 2013. Copies of the Company's full Annual Report and Financial Statements are being posted to shareholders today and will also be made available to download from the Company's website at www.phorm.com.

**Highlights:**

- Total revenue of $279,750 (2012: $63,291)
- Operating loss of $35.1 million (excluding share based payment expense) (2012: $31.6 million)
- Launched with 8 further ISPs globally, in addition to TTNET in Turkey
- Significant increase in global user numbers to over 30 million daily unique users
- Advertising performance remains strong
- Pricing has increased by between 35% and 94%, depending on the product
- Memorandum of Understanding signed with China Telecom, naming Phorm as its preferred strategic partner for Online Advertising and 'Big Data' initiatives
- Equity placings of $39.8 million (net $38.4 million) successfully completed

***Turkey***

- Delay in commercialisation, primarily due to the re-design of the invitation process following the release of the revised BTK regulatory guidelines in December 2012
- Significant recent increase in user numbers, from approximately 1 million to more than 5 million
- Advertising platform is now able to use both cookie-based and ISP data
- Inventory available for opted-in users has increased to over 2 billion advertising requests per month
- Commercial scale has now been achieved
- Advertising revenue is growing rapidly which is expected to continue throughout 2014

***Rest of World***

- Memorandum of Understanding signed with China Telecom, valid for three years
- Phorm is now China Telecom's preferred strategic partner for 'Big Data' and Online Advertising
- Agreement signed with national partner to accelerate the roll-out of Phorm's technology in China
- Integration with major advertising network in China providing access to over 5 billion advertising requests per month for opted-in users
- Commercial launch with Chinese ISPs, initial paid-for test campaigns currently in progress
- Operations have been scaled back in Brazil and Romania in order to focus on markets with higher near term growth potential

***Finances***

- In 2013, the Company completed equity placings to raise, in aggregate, $39.8 million (net $38.4 million), which enabled the business to launch its commercial operations in Turkey and to continue to develop opportunities in China and elsewhere
- In March 2014, the Company completed a further equity placing to raise $16.7 million (gross)

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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 industry leading technology enables its Internet Service Provider ("ISP") partners to offer a new type of online advertising platform and a free consumer internet content feature, ensuring more relevant advertisements and personalised content for opted-in users.

Phorm's advertising platform revolutionises current standards of online privacy, fully protecting the identity of consumers. Phorm's solution is completely opt-in. Only those users consenting to the service are profiled and only ever on an anonymous basis.

Phorm's partners include leading ISPs, Publishers, Advertising Networks and Advertisers.

Phorm, under a predecessor holding company, was admitted to the AIM market of the London Stock Exchange in 2004.

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

## Chairman and chief executive officer's statement

I am pleased to report upon the further progress made by the Group during the financial year ended 31 December 2013 and on our subsequent on-going activities to the date of this statement.

**Operational performance**

Historically, the major challenge facing Phorm has been to build a large user base. We learned, during the course of last year, that our technology worked. Across several dozen case studies in Turkey, we were able to deliver highly effective advertising in the text and display space. However, even though it was large enough to prove the business model and demonstrate the power of the technology, the scale at which we were able to operate remained too small deliver significant revenues. In recent months the Company has made dramatic progress in this regard. At the start of 2013, the Company had just one commercially operational ISP partner, it now has nine globally. The number of daily unique users in the same period has grown from less than 2 million to over 30 million as the Company previously announced on 27 March 2014. The very significant increase in users gives Phorm great confidence that this scale will translate into large revenues as a result of advertiser demand for the product.

The cornerstone upon which scale in the business is being built is advertising performance. The current text advertising market is dominated by search engines, which have demonstrated a hitherto unique ability to target advertising at the keyword level based upon search terms entered by individual users. Phorm's system, the Open Internet Exchange, is able to discern audience-buying intent by anonymously understanding repeat keyword activity across multiple pages. Of particular note is that despite Phorm's system being able to address a specific audience without reference to search, the propensity of users who click on our advertisements to then go on to purchase or take some desired action has, in a large number of cases, significantly exceeded their propensity to do so on the same advertisement shown on a search engine. This has created a situation where demand for our product exceeds supply by a considerable margin. Compared to last year, our pricing has increased between 35% and 94% depending on the product and a large share of our advertisers have re-booked campaigns for the past six months.

In Turkey, the ability of the business to generate large-scale revenue has been held back by the relatively slow growth - until recently - in the number of users. Low user numbers have meant that, in many cases, Phorm has been unable to accept the full campaign budgets available from advertisers who require specific budgets and, hence, volumes to be consumed within a given time-frame. The more tightly advertisers target specific behaviours, the smaller the available volume of users who exhibit those behaviours. With just over 1 million users, therefore, Phorm lacked the user numbers and, hence, campaign volumes necessary to consume large budgets. However, in the last month the number of daily unique users has grown from just over 1 million to more than 5 million, as a result of supplementing ISP data, as appropriate, with traditional cookie-based data. We are now working with our advertising partners to increase campaign size and the prospects for the business in Turkey look very good.

Outside Turkey, the growth in users has been even more remarkable. Phorm is now commercially live with a further eight ISP partners and well over 25 million users. Although the non-Turkish users are now live and opted-in, the Company is still in the ramp up process of building the publisher partnerships and commercial advertising pipeline to address this audience. However, early results in non-Turkish markets suggest that advertising performance will meet or exceed that achieved in Turkey. In China, we expect to achieve in excess of 50 million users opted in this year, the Company previously announced on 27 March 2014 that it had reached 30 million daily unique users globally.

There are four main drivers of the business: users, publishers, advertisers and advertisement performance.

***1. Users***

A user is defined as a unique ID which can be profiled for the purpose of delivering targeted content and advertising. Over the last six months user numbers have increased by a factor of over 15 and the strength of growth outside Turkey ensures that the ultimate success of the Company has been substantially de-risked. Phorm expects strong user growth to continue in 2014 as the Company progressively signs up more ISPs in multiple markets.

***2. Publishers***

Over the past twelve months the Company significantly increased the amount of inventory to which it had access. Integrating with ad exchanges as well as advertising networks and direct publishers provided access to over 900 million of advertising requests per day at peak. This demonstrates the potential for large-scale revenues as user numbers grow. The Company is continuing to integrate with a wide variety of players in the eco-system and this has provided a further substantial increase in the amount of inventory available to the platform.

The Company, globally, now has access to over 18 billion advertising requests per month across thousands of websites.

### 3. *Advertisers*

In 2013 the Company delivered both targeted display and targeted text advertising. The response that the Company has received from advertisers for both products has been excellent. The Company is now working with all of the top five global advertising agencies, through their local subsidiaries.

The key focus for the Company now is to deliver substantial volume. While the growth of the global advertiser pipeline is still at an early stage it is expected that substantial volume can now be achieved as the result of the recent growth in users and inventory in 2014. Bolstering the global sales effort through recruitment, training and broad presentation to market players is now the Company's main focus.

### 4. *Performance*

Phorm's advertising platform, the OIX, provides an unprecedented level of targeting, on an anonymous basis. This has enabled advertisers to address precisely the audiences that they are trying to reach. The result has been very strong performance. The effectiveness of the advertising is measured in post click and post view conversions.

In many cases, the Company has been able to demonstrate that it can deliver superior conversion performance in comparison to the market leader across multiple advertising sectors. This is particularly exciting as the optimisation of the system is still at a relatively early stage. The conversion performance will under-pin future growth as this is a key metric used by the advertisers.

**Strategic partnerships**

We were also pleased to announce a memorandum of understanding with China Telecom. This MOU, which names us as a preferred strategic partner for Online Advertising and Big Data initiatives, is a reflection of the progress which we are making on the ground in furthering ISP partnerships across numerous additional provinces

The Company is continuing with its strategy of focusing on those global markets that can deliver results quickly and the success of this strategy can be seen by the growth in the key value drivers over recent months.

**Legal Action**

The Company has, for several years now, been subject to a very active campaign by a known group of individuals whose primary goal has been to harm the business and its employees through the dissemination of false information to partners and investors. These individuals have also adopted tactics designed to harass and intimidate the Company and its employees. Accordingly, we have recently obtained an interim injunction against one of these individuals, preventing him from continuing such activity against me and other employees of Phorm. The Company intends to vigorously defend its reputation and employees against such actions in the future.

**Funding and going concern**

In 2013, the Company completed share placings of £25.2m, which enabled the business to launch its commercial operations in Turkey and to continue to develop opportunities in China and elsewhere. However, the re-design of the invitation process led to a delay in the commercialisation of the Turkish opportunity and, as a result, further fund raising was required.

In March 2014, the Company announced that it had successfully completed a placing of £10.0m in shares.

During the course of this year, we have begun to introduce ourselves to US and Chinese capital markets. Response to our progress has been strong as demonstrated by the participation of several US investors in the £10 million raised in March 2014. We expect this exposure to the US investor base to increase significantly during the course of this year.

As a result of the extended delays involved in reaching the current operational stage, the Company has seen a substantial decrease in its stock price. It has nevertheless retained the support of key shareholders who currently account for more than 60% of the Company's shareholding.

The delays described above have meant that revenues have not grown as rapidly as expected. The Company is very encouraged by the progress made but, nevertheless, further funds will be required in the near term. The business plan approved by the Directors forecasts the need for this further funding and access to sufficient working capital to allow the operating businesses to reach full commercial scale. This is the principal risk to the business at the current time.

At the date of approval of these financial statements, the Group has yet to secure the additional funding requirements set out in the business plan and is, therefore, not fully-funded at the current time. However, given the success of the recent fund raising activities and the operational progress that has been achieved, the Directors are confident that this further funding will be achieved as required. As at 31 May 2014, the Group held cash and cash equivalents of $8.8m.

In preparing these financial statements, the Directors have assumed that sufficient further funding will be made available to the Group to enable it to execute its business plan and realise the forecast inflows from operations in Turkey and elsewhere.

In common with similar businesses at this stage of their development, and in light of the Group's dependence on further financing being made available to it from its shareholders or other providers of finance, the Directors consider the combination of these circumstances represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group will have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

Further information in respect of the directors' assessment of going concern, including the material uncertainties identified, is set out in Note 2 to the financial statements.

**Financial report**

*Results for the year*

Revenue generation in Turkey took significantly longer than originally anticipated and was interrupted as a result of the adjustments made to the invitation process in line with the new BTK (Bilgi İletişim ve Teknolojileri Kurumu, the telecommunications authority in Turkey) guidelines. However, following the regulatory review, revenue billing restarted in June 2013. While the current revenues, at this stage, remain small, key lead indicators such as the number of pages enabled for advertising, as well as the number and value of campaigns show strong positive trends. In addition, the recent significant growth in user numbers has given the Company considerable cause for optimism and it is very pleased with the opt-in rate that it has for its invitations.

Total revenue of $279,750 was generated for the year ended 31 December 2013 (2012: $63,291). The Group expects revenue growth to be driven by a combination of four key factors: users, publisher inventory, advertising campaigns and targeting performance.

Operating losses for the year (before non-cash share-based payment charges) were $35.1 million (2012: $31.6 million). The non-cash share-based payment charges for the year were $10.7 million (2012: $26.1 million).

For the six months ended 30 June 2013, the Company reported an operating loss (before non-cash share-based payment charges) of $16.9 million; this compares to $18.2 million in the second half of the year.

Losses after taxation were $46.6 million (2012: $58.1 million). Loss per share was $0.16 (2012: $0.74).

The Group used $33.1 million (2012: $30.6 million) in funding its operating activities.

*Financial position*

The Company's balance sheet at 31 December 2013 showed net assets of $8.4 million (2012: net assets of $6.4 million) with cash and cash equivalents of $9.7 million (2012: $5.9 million). The year on year movement of $2.0 million is attributable to the loss for the year of $46.6 million, foreign exchange losses on translation of overseas subsidiaries of $0.3 million, offset by new share subscriptions of $38.2 million and a share-based payment of $10.7 million.

*Funding*

In March 2013, the Company completed the placing of £3m ($4.6m) of Loan Notes with an initial annualised coupon of 20% payable upon redemption. The funding was to take place in two tranches with £1.5m ($2.3m) being made immediately available to the Company as bridge financing.

In April 2013, the Company completed a placing of £5.2m ($8.0m) in shares and the issuance of a further £2.0m ($3.2m) in convertible secured loan notes. The Company further announced in May 2013 that it had redeemed the £1.5m ($2.3m) of convertible loan notes issued in March 2013, cancelling all further obligations.

In July 2013, the Company raised £10.0m ($15.6m) and subsequently in November 2013 raised a further £10.0m ($16.2m) through two share placings.

In March 2014, the Company announced that it had successfully completed a placing of £10.0m ($16.7m) in shares.

The proceeds of the fund raising activities were used for business expansion, capital expenditures, marketing and general working capital for the business.

Kent Ertugrul

Chairman and Chief Executive Officer

26 June 2014

## Phorm Corporation Limited

## Consolidated statement of profit or loss
## Year ended 31 December 2013

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|

| | 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 | 279,750 | - | 279,750 | 63,291 | - | 63,291 |
| Cost of sales | | (4,066,477) | - | (4,066,477) | (561,493) | - | (561,493) |
| **Gross loss** | | (3,786,727) | - | (3,786,727) | (498,202) | - | (498,202) |
| Other operating expenses - research and development | | (6,934,168) | (1,481,076) | (8,415,244) | (6,547,655) | (2,682,554) | (9,230,209) |
| Administrative expenses | | (24,427,137) | (9,232,345) | (33,659,482) | (24,536,799) | (23,415,318) | (47,952,117) |
| **Operating loss** | | (35,148,032) | (10,713,421) | (45,861,453) | (31,582,656) | (26,097,872) | (57,680,528) |
| Investment income | 8 | | | 5,795 | | | 11,629 |
| Financing expense | 9 | | | (748,008) | | | (406,177) |
| **Loss before tax** | | | | (46,603,666) | | | (58,075,076) |
| Income tax | 10 | | | - | | | - |
| **Loss for the year** | 5 | | | (46,603,666) | | | (58,075,076) |
| Attributable to equity holders of the Company | | | | (46,603,666) | | | (58,075,076) |
| Basic and diluted loss per share ($) | 11 | | | (0.16) | | | (0.74) |

# Consolidated statement of profit or loss and other comprehensive income
# Year ended 31 December 2013

| Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|

| | $ | $ |
|---|---|---|
| **Loss for the year** | (46,603,666) | (58,075,076) |
| **Other comprehensive income** | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Exchange (loss)/gain on translation of foreign operations, net of tax | (317,902) | 634,641 |
| **Total comprehensive loss for the year** | (46,921,568) | (57,440,435) |
| Attributable to equity holders of the Company | (46,921,568) | (57,440,435) |

## Statements of financial position
## 31 December 2013

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| | Note | $ | $ | $ | $ |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Investment in subsidiary | 13 | - | - | 16,963,152 | 70,591,856 |
| Plant and equipment | 12 | 1,211,291 | 763,514 | - | - |
| **Total non-current assets** | | 1,211,291 | 763,514 | 16,963,152 | 70,591,856 |
| **Current assets** | | | | | |
| Amounts due from subsidiary undertakings | 14 | - | - | 36,925,520 | - |
| Trade and other receivables | 15 | 6,181,141 | 2,383,090 | 3,260,657 | 482,781 |
| Cash and cash equivalents | 16 | 9,662,828 | 5,877,075 | 413,393 | - |
| **Total current assets** | | 15,843,969 | 8,260,165 | 40,599,570 | 482,781 |
| **Total assets** | | 17,055,260 | 9,023,679 | 57,562,722 | 71,074,637 |
| **Current liabilities** | | | | | |
| Trade payables | 20 | (2,916,160) | (632,405) | (1,193,223) | - |
| Other payables | 21 | (2,104,455) | (2,021,716) | (259,035) | (518,073) |
| Provisions | 22 | (164,864) | - | (164,864) | - |

| | | | | | |
|---|---|---|---|---|---|
| Amounts due to subsidiary undertakings | 27 | - | - | (382,245) | - |
| **Total current liabilities** | | (5,185,479) | (2,654,121) | (1,999,367) | (518,073) |
| **Non-current liabilities** | | | | | |
| Convertible loan notes | 23 | (3,425,673) | - | (3,425,673) | - |
| **Total liabilities** | | (8,611,152) | (2,654,121) | (5,425,040) | (518,073) |
| **Net assets** | | 8,444,108 | 6,369,558 | 52,137,682 | 70,556,564 |
| **Equity** | | | | | |
| Share capital | 17 | 277,744,986 | 239,507,089 | 195,140,258 | 156,902,361 |
| Treasury shares | 18 | - | - | - | - |
| Warrants | 17 | 869,430 | 659,766 | 869,430 | 659,766 |
| Translation reserve | | (13,507,218) | (13,189,316) | 4,621,646 | 1,536,343 |
| Accumulated deficit | | (256, 663,090) | (220,607,981) | (148,493,652) | (88,541,906) |
| **Total shareholders' equity** | | 8,444,108 | 6,369,558 | 52,137,682 | 70,556,564 |

## Statements of changes in equity
## Year ended 31 December 2013

| **Group** | **Share capital $** | **Warrants $** | **Treasury shares $** | **Translation reserve $** | **Accumulated deficit $** | **Total $** |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 239,507,089 | 659,766 | - | (13,189,316) | (220,607,981) | 6,369,558 |
| Total comprehensive loss for the year | - | - | - | (317,902) | (46,603,666) | (46,921,568) |
| Share-based payment charge (Note 19) | - | - | - | - | 10,713,421 | 10,713,421 |
| Issue of new stock | 38,237,897 | 122,351 | - | - | - | 38,360,248 |
| Charge for warrants | - | 87,313 | - | - | - | 87,313 |
| Provision for unsettled equity (Note 22) | - | - | - | - | (164,864) | (164,864) |

| | | | | | | |
|---|---|---|---|---|---|---|
| At 31 December 2013 | 277,744,986 | 869,430 | - | (13,507,218) | (256,663,090) | 8,444,108 |

| Group | Share capital $ | Warrants $ | Treasury shares $ | Translation reserve $ | Accumulated deficit $ | Total $ |
|---|---|---|---|---|---|---|
| At 1 January 2012 | 220,834,668 | 180,286 | (341,837) | (13,823,957) | (188,630,777) | 18,218,383 |
| Total comprehensive loss for the year | - | - | - | 634,641 | (58,075,076) | (57,440,435) |
| Share-based payment charge (Note 19) | - | - | - | - | 26,097,872 | 26,097,872 |
| Issue of new stock | 19,334,067 | 373,613 | - | - | - | 19,707,680 |
| Cancellation of stock | - | (128,301) | | - | - | (128,301) |
| Effects of redomicile (Note 1) | (661,646) | 234,168 | 341,837 | - | - | (85,641) |
| At 31 December 2012 | 239,507,089 | 659,766 | - | (13,189,316) | (220,607,981) | 6,369,558 |

| Share capital $ | Warrants $ | Translation reserve $ | Accumulated deficit $ | Total equity $ |
|---|---|---|---|---|

**Company**

| | | | | | |
|---|---|---|---|---|---|
| At 1 January 2013 | 156,902,361 | 659,766 | 1,536,343 | (88,541,906) | 70,556,564 |
| Loss for the year | - | - | - | (59,786,882) | (59,786,882) |
| Other comprehensive income for the year | - | - | 3,085,303 | - | 3,085,303 |
| Issue of new stock | 38,237,897 | 122,351 | - | - | 38,360,248 |
| Charge for warrants | - | 87,313 | - | - | 87,313 |
| Provision for unsettled equity (Note 22) | - | - | - | (164,864) | (164,864) |
| Balance at 31 December 2013 | 195,140,258 | 869,430 | 4,621,646 | (148,493,652) | 52,137,682 |

| Company | Share capital $ | Warrants $ | Translation reserve $ | Accumulated deficit $ | Total equity $ |
|---|---|---|---|---|---|
| At date of incorporation - 7 August 2012 | - | - | - | - | - |
| Loss for the period | - | - | | (88,541,906) | (88,541,906) |
| Other comprehensive income for the period | - | - | 1,536,343 | | 1,536,343 |
| Total comprehensive loss for the period | - | - | 1,536,343 | (88,541,906) | (87,005,563) |
| Issue of new stock | 156,902,361 | - | - | - | 156,902,361 |
| Issue of Warrants | - | 659,766 | - | - | 659,766 |
| Balance at 31 December 2012 | 156,902,361 | 659,766 | 1,536,343 | (88,541,906) | 70,556,564 |

## Statements of cash flows
## Year ended 31 December 2013

| | Group | | Company | |
|---|---|---|---|---|
| | Year ended 31 December | Year ended 31 December | Year ended 31 December | Period from 7 August 2012 (incorporation date) 31 December |

| | 2013 $ | 2012 $ | 2013 $ | 2012 $ |
|---|---|---|---|---|
| Operating loss | (45,861,453) | (57,680,528) | (59,086,764) | (88,541,906) |
| Depreciation charges | 1,157,272 | 668,625 | - | - |
| Loss/(gain) on disposal of plant and equipment | 2,453 | (93,487) | - | - |
| Allowance for intercompany receivables | - | - | 9,619,249 | 8,697,200 |
| Reversal of allowance for intercompany receivables | - | - | (8,697,200) | - |
| Impairment of investment in subsidiary | - | - | 55,092,715 | 79,314,342 |
| Impairment of plant and equipment | - | 50,822 | - | - |
| Share-based payment expense | 10,713,421 | 26,097,872 | - | - |
| Increase in trade and other receivables | (1,483,015) | (616,014) | (462,840) | (159,774) |
| Increase in trade and other payables | 2,360,125 | 814,084 | 934,185 | 481,775 |
| Increase in intercompany payable | - | - | 382,216 | 208,363 |
| **Net cash used in operating activities** | (33,111,197) | (30,758,626) | (2,218,439) | - |
| **Investing activities** | | | | |
| Interest received | 5,795 | 11,629 | - | - |
| Repayment on settlement of warrants | - | (160,860) | - | - |
| Proceeds on disposal of plant and equipment | - | 142,882 | - | - |
| Purchase of plant and equipment | (1,598,054) | (456,841) | - | - |
| **Net cash used in investing activities** | (1,592,259) | (463,190) | - | - |
| **Financing activities** | | | | |
| Finance lease interest paid | - | - | - | - |
| Repayment of obligations under finance leases | - | - | - | - |
| Proceeds from issue of ordinary shares | 35,878,102 | 20,415,489 | 35,878,102 | 8,913,431 |
| Increase in intercompany loan receivable | - | - | (38,342,707) | (8,913,431) |
| Proceeds from issue of secured convertible loan notes | 5,263,605 | - | 5,263,605 | - |
| Secured convertible loan note interest paid | - | - | - | - |
| Repayment of secured convertible loan note | (2,799,000) | - | (2,799,000) | - |
| **Net cash generated from financing activities** | 38,342,707 | 20,415,489 | - | - |
| **Net increase/(decrease) in cash and cash equivalents** | 3,639,251 | (10,806,327) | (2,218,439) | - |
| Cash and cash equivalents brought forward | 5,877,075 | 16,149,780 | - | - |
| Effect of foreign exchange changes | 146,502 | 533,622 | 2,631,832 | - |

| | | | | |
|---|---|---|---|---|
| **Cash and cash equivalents carried forward** | 9,662,828 | 5,877,075 | 413,393 | - |

# Notes to the financial statements
# Year ended 31 December 2013

**Basis of preparation**

The financial statements have been prepared in accordance with the historical cost basis except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("Interpretations"), as adopted by the EU.

**Adoption of new standards and interpretations**

On 1 January 2013, the Group adopted all the new and revised IFRS, IAS, Interpretations, as adopted by the EU that are relevant to its operations and effective from that date. The adoption of these new IFRS, IAS and Interpretations, as adopted by the EU does not result in changes in the Group's accounting policies and has no material effect on the amounts reported for the current and prior years, except as mentioned below.

At the date of authorisation of these financial statements, the following new standard and interpretation has been applied in these financial statements

IFRS 13 Fair Value Measurement

The group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurements requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

**Going concern**

In accordance with their responsibilities, the directors have considered the appropriatness of the going concern basis, which has been used in the preparation of these financial statements.

During the course of 2014, we have begun to introduce ourselves to US and Chinese capital markets. Response to our progress has been strong as demonstrated by the participation of several US investors in the £10 million ($16.7m) raised in March 2014. We expect this exposure to the US investor base to increase significantly during the course of this year.

As a result of the extended delays involved in reaching the current operational stage, the Company has seen a substantial decrease in its stock price. It has nevertheless retained the support of key shareholders who currently account for more than 60% of the Company's shareholding.

The delays have meant that revenues have not grown as rapidly as expected. The Company is very encouraged by the progress made but, nevertheless, further funds will be required in the near term. The business plan approved by the Directors forecasts the need for this further funding and access to sufficient working capital to allow the operating businesses to reach full commercial scale. This is the principal risk to the business at the current time.

At the date of approval of these financial statements, the Group has yet to secure the additional funding requirements set out in the business plan and is, therefore, not fully-funded at the current time. However, given the success of the recent fund raising activities and the operational progress that has been achieved, the Directors are confident that this further funding will be achieved as required.

In preparing these financial statements, the Directors have assumed that sufficient further funding will be made available to the Group to enable it to execute its business plan and realise the forecast inflows from operations in Turkey and elsewhere.

In common with similar businesses at this stage of their development, and in light of the Group's dependence on further financing being made available to it from its shareholders or other providers of finance, the Directors consider the combination of these circumstances represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group will have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements do not reflect any adjustments that would be required if the Group were unable to secure such financing to enable the Group to achieve profitability and positive cash flow, such that the going concern basis of preparation ceases to be appropriate.