DM PLC

INTERIM REPORT

for the six month period ended 30 June 2011

DM plc

Highlights

DM, the direct marketing group specialising in customer recruitment and database management reports its interim results for the six months ended 30 June 2011.

Stable Financial Position with Net Cash
Recent Business Disruption
Difficult Trading Conditions

- Continued cash management resulting in robust balance sheet with net cash surplus of £0.28 million (2010: net debt £2.54 million);
- Significantly reduced turnover and materially lower EBITDA and profit after tax for the period due to the impact of OFT action on Group promotion activity;
- Turnover down 38 per cent. to £8.40 million (2010: £13.45 million);
- Group EBITDA down 82 per cent. to £0.58 million (2010: £3.18 million);
- Profit before tax down 86 per cent. to £0.41 million (2010: £2.98 million);
- Earnings per share down 77 per cent. to 0.30 pence (2010: 1.32 pence);
- One of the UK's largest owners and providers of consumer lifestyle data to the direct marketing industry underpinned by extensive multi-media database assets across post, phone, mobile, email and internet;
- Court ruling in OFT case on 17 March 2011 with respect to promotion design materially impacted Group financial performance;
- Court ruling in OFT case appealed and referred to the European Court of Justice; and
- Difficult market conditions across all business activities.

DM Chairman, Adrian Williams said:

"2011 has, for many reasons, been one of the most challenging periods in the Group's history, but the Group continues to be well managed and its resilience in these difficult times means that it is still well placed to benefit when market conditions start to improve."

Chairman's Statement

Introduction

The Group remains stable and well managed with all businesses focused on keeping a tight control over costs, cash management and on identifying and exploiting new business opportunities. Across all activities we have carefully selected and introduced the best people to the Group's businesses to address the challenges which we face. The Group is working extensively on developing and refining new promotions within the legal framework as currently interpreted and improving the quality and value of our databases and direct marketing activities.

Overall, the first half of 2011 has been a very difficult period for the Group with financial performance materially impacted by the Court ruling in the OFT case in respect of the design of certain Group promotions. This has been set in the context of continued challenging and uncertain market conditions.

Financial results

For the six months ended 30 June 2011, revenue was £8.40 million, down 38 per cent. (2010: £13.45 million). EBITDA for the period was £0.58 million (2010: £3.18 million), with Group consolidated profit before tax £0.41 million (2010: £2.98 million). Basic earnings per share was 0.30 pence (2010: 1.32 pence).

For the period the Group was broadly cash neutral from operating activities after taking account of corporation tax payments and debt repayment. As at 30 June 2011, the Group had a net cash surplus of £0.28 million (2010: net debt £2.54 million). At the current levels and taking into account revised budgeted performance any covenant breach is unlikely and moreover the Group's strong cash balance puts it in a position where the full bank debt could be repaid should it be appropriate.

The Board is not recommending an interim dividend for the period ended 30 June 2011 (2010: nil). During the period the Group did not buy back any shares.

Business Review

The Group is now a stable integrated, multi-channel business with activities across the complementary activities of consumer lifestyle database management and direct marketing, alongside the historic core customer recruitment activities of gamecard and direct marketing mailings.

The major event during the period was the outcome of the proceedings that were taken by the Office of Fair Trading ("OFT") in relation to certain promotions undertaken by certain Group companies.

Business Review (continued)

Following a hearing which took place in January 2011, on 2 February 2011 the High Court handed down a judgment in relation to those proceedings. On 17 March 2011, following a period of consultation, the Court accepted undertakings (“the Undertakings”) from certain Group executives and from the Group companies concerned in respect of certain promotions carried out by those Group companies.

The OFT proceedings did not result in a fine of any kind on the Group and subsequently the Court decided that the Group companies would be responsible for 85% of the allowable costs of the OFT incurred in the proceedings as determined by a detailed assessment of those costs. These costs have not yet been finalised. The financial results to 30 June 2011 include a provision based on the Board’s estimates of the costs likely to be recoverable by the OFT.

In March 2011, the Court granted the Group's executives and the Group companies involved leave to appeal to the Court of Appeal. The matter was subsequently referred from the Court of Appeal to the European Court of Justice. At present it is not known when a ruling will be provided by the European Court of Justice, but typically the process takes at least a year, potentially significantly longer.

The Undertakings related to certain changes that were required to the design and content of new promotions undertaken by the relevant Group companies after 17 March 2011. At the time it was not possible to accurately assess the likely level of adverse effect that these changes would have on financial performance. However, following the Undertakings becoming binding, due to the uncertainty over current promotion design and the requirement to develop and test new compliant promotions, the trading of the Group was significantly impacted.

Since the Court ruling in the OFT case the Group’s gamecard and promotional activities have been at a very low level as new compliant promotional formats are being designed and tested. Whilst the Group is developing and testing new designs this area is expected to continue to run an operational loss.

The Group’s direct mail activities similarly suffered a period of disappointing results during the first half of 2011. However, towards the end of the period direct mailings saw significant improvements with new recruitment campaigns generating useful contributions.

Business Review (continued)

In the Group's consumer lifestyle and direct marketing activities the market activity has remained unpredictable and at a very low level. During the period we have concentrated on upgrading the form and quality of our data. There has also been a focus on cost savings in relation to external data collection services and investment in the sales and marketing function. Whilst within the various products and services the Group provides there are areas of very low activity, overall the direct marketing and database activities are contributing to the wider Group. Data sales are still disappointing but we firmly believe that our data quality is now among the very best in the industry and we continue to recruit valuable, content rich data.

Wendy Ruck and John Gommes

It was with great sadness that during the period executive director, Wendy Ruck, and non-executive director, John Gommes, both passed away. Both Wendy and John had made huge contributions to the development and success of the Group and will be sorely missed.

Wendy Ruck passed away suddenly in April 2011. Wendy was a director of the Group since its formation in 2004. She was responsible for recruitment and training for the Group as well as directing prize fulfilment operations in Ross on Wye. She was incredibly well liked and respected by all who knew and met her and she will be remembered not only for her professionalism, but also for her great warmth and kindness and her consideration for her fellow colleagues and for her advice and help, which she gave selflessly. The Group would not be as successful as it is today without Wendy's contribution.

Like Wendy, John had been a director of the Group since its formation in 2004 and his wealth of experience in the direct marketing industry, wise counsel and friendship will be sorely missed by all of his fellow directors and colleagues. We thank him and his family for the contribution that he made to the Group which exists today.

Outlook

2011 has been one of the most difficult and challenging periods in the Group's history. The markets in which the Group operates have remained severely depressed and shown no sign of improvement since 2010. The effects of the OFT action on the Group's promotion and gamecard activity has likewise had a material adverse effect on the recent financial performance of the Group. Within the Group there is a considerable wealth of experience in promotional design which is focused on developing new and attractive gamecards. We continue to test these formats via a tried and tested methodology and hope to report improved response and performance over the coming months. Within the direct marketing and database management activities the Group has a market leading database and we believe we will be in a strong position from which to capitalise on our market leading, multi-channel offering when the level of direct marketing activity eventually increases.

Outlook (continued)

At this point we always acknowledge the contribution that the Group's employees have made to its success. This is particularly poignant with the sad loss of Wendy Ruck and John Gommes, two senior and influential figures in the creation and development of the Group. We miss them and their contribution very much and would like to thank everybody within the Group for their hard work and commitment during this difficult time.

We remain confident that the Group has the skills and resources to develop successfully and that we will be able to leverage our extensive consumer lifestyle database to generate shareholder returns going forward.

A J Williams
Chairman

26 September 2011

DM plc **Consolidated Statement of Comprehensive Income**

£000	Notes	Six months to 30 June 2011 Unaudited	Six months to 30 June 2010 Unaudited	Year to 31 December 2010 Audited
Revenue		**8,395**	13,454	27,562
Cost of Sales		**(4,358)**	(6,399)	(14,226)
Gross Profit		**4,037**	7,055	13,336
Administrative expenses		**(3,586)**	(3,994)	(8,071)
Operating Profit		**451**	3,061	5,265
Investment Income		**12**	-	-
Finance costs		**(50)**	(79)	(144)
Profit before tax		**413**	2,982	5,121
Income tax expense	**2**	**84**	(783)	(1,275)
Profit for the period		**497**	2,199	3,846
Total Comprehensive Income for the period		**497**	2,199	3,846
Earnings per share				
From continuing operations -				
- basic	**4**	**0.30p**	1.32p	2.31p
- diluted	**4**	**0.30p**	1.32p	2.31p

DM plc **Consolidated Statement of Financial Position**

£000	30 June 2011 Unaudited	30 June 2010 Unaudited	31 December 2010 Audited
Assets			
Non-Current Assets			
Goodwill	**12,824**	12,824	12,824
Other intangible assets	**506**	682	608
Property, plant and equipment	**138**	128	161
	13,468	13,634	13,593
Current Assets			
Inventories	**122**	337	167
Trade and other receivables	**4,636**	6,551	5,842
Corporation tax refundable	**128**	-	-
Cash and cash equivalents	**2,706**	1,821	4,374
	7,592	8,709	10,383
Total Assets	**21,060**	22,343	23,976
Current Liabilities			
Trade and other payables	**(3,143)**	(3,805)	(5,022)
Borrowings	**(2,422)**	(1,937)	(3,391)
Current tax payable	**-**	(733)	(565)
	(5,565)	(6,475)	(8,978)
Non Current Liabilities			
Borrowings	**-**	(2,422)	-
Deferred Tax	**(1)**	(1)	(1)
	(1)	(2,423)	(1)
Net Assets	**15,494**	13,445	14,997

DM plc **Consolidated Statement of Financial Position – continued**

£000	30 June 2011 Unaudited	30 June 2010 Unaudited	31 December 2010 Audited
Equity attributable to equity holders of the parent			
Ordinary shares	**1,647**	**1,663**	1,647
Capital redemption reserve	**32**	**16**	32
Merger reserve account	**(3,108)**	**(3,108)**	(3,108)
Share premium account	**3,685**	**3,685**	3,685
Profit and Loss account	**13,238**	**11,189**	12,741
Total Equity	**15,494**	**13,445**	14,997

DM plc — Consolidated Statement of Cash Flows

£000	**Six months to 30 June 2011**	Six months to 30 June 2010	Year to 31 December 2010
	Unaudited	Unaudited	Audited
Cash flows from operating activities			
Profit before taxation	**413**	2,982	5,121
Depreciation and Amortisation	**124**	118	239
Loss on disposal of property, plant and equipment	**6**	-	-
Investment income	**(12)**	-	-
Finance costs	**50**	79	144
Decrease/(Increase) in inventories	**45**	(58)	112
Decrease in trade and other receivables	**1,206**	521	1,230
Decrease in trade and other payables	**(1,879)**	(1,228)	(11)
Cash generated from operations	**(47)**	2,414	6,835
Interest paid	**(50)**	(79)	(144)
Interest received	**12**	-	-
Income taxes paid	**(609)**	(438)	(1,096)
Net cash (outflow)/inflow from operating activities	**(694)**	1,897	5,595
Cash flows from investing activities			
Sale of property, plant and equipment	**20**	-	5
Purchase of property, plant and equipment	**(25)**	(10)	(64)
Purchase of intangible assets	**-**	-	(32)
Net cash used by investing activities	**(5)**	(10)	(91)

DM plc **Consolidated Statement of Cash Flows - continued**

£000	Notes	Six months to 30 June 2011 Unaudited	Six months to 30 June 2010 Unaudited	Year to 31 December 2010 Audited
Cash flows from financing activities				
Repayment of borrowings		**(969)**	(968)	(1,937)
Shares bought back for cancellation		**-**	-	(95)
Net cash generated used by financing activities		**(969)**	(968)	(2,032)
Net (decrease)/ increase in cash and cash equivalents		**(1,668)**	919	3,472
Cash and cash equivalents at beginning of period		**4,374**	902	902
Cash and cash equivalents at end of the period	**6**	**2,706**	1,821	4,374

Consolidated Statement of Changes in Equity

£000	Six months to 30 June 2011 Unaudited	Six months to 30 June 2010 Unaudited	Year to 31 December 2010 Audited
Opening Equity	**14,997**	11,246	11,246
Profit for the period attributable to equity shareholders	**497**	2,199	3,846
Buy back of share capital	**-**	-	(95)
Total changes in equity	**497**	2,199	3,751
Closing Equity	**15,494**	13,445	14,997

Notes

1. Basis of preparation and accounting policies

1.1 Reporting Entity

This interim financial report is the unaudited Consolidated Financial Statements of DM plc, a company registered in England and Wales, and its subsidiaries (hereafter the ‘Group’) for the six months ended 30 June 2011.

1.2 Statement of compliance

This interim financial report has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that are either endorsed by the EU and effective (or available for early adoption) at 31 December 2010.

This interim financial report should be read in conjunction with the Report and Accounts for the year ended 31 December 2010, which were approved for issue by the Board of Directors on 11 March 2011, as it provides an update of previously reported information. The comparative figures for the year ended 31 December 2010 are not the company’s statutory accounts for the financial year.

The comparative figures for the year ended 31 December 2010 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts received an unqualified audit report which did not contain statements under sections 498 (2) or (3) of the Companies Act 2006.

1.3 Significant accounting policies

The accounting policies used and the presentation for this interim financial report are consistent with those used in the Group’s financial statements for the year ended 31 December 2010.

The preparation of Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the date of the Interim Financial Statements. If in future such estimates and assumptions, which are based on management's best judgment at the date of the Interim Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

The Group operates in a sector where no significant seasonal or cyclical variations in total sales and profits are experienced during the financial year.

2. Income tax expense

The income tax charge for the period ended 30 June 2011 has been calculated at a rate of 26.5% (28% for both the full year to 31 December 2010 and the interim period to 30 June 2010).

3. Segmental information

All DM's business activities relate to the recruitment to, maintenance of and monetisation of databases. Therefore the business is managed by the chief operating decision maker ("CODM") as one business segment. The CODM receives reports at consolidated level and uses those to assess business performance.

4. Earnings per share

Basic earnings per share and diluted earnings per share are calculated using the profit on ordinary activities after tax and a weighted average number of ordinary shares as follows: -

	Basic	Diluted
- Period to 30 June 2011	164,684,094	164,684,094
- Period to 30 June 2010	166,309,094	166,309,094
- Year to 31 December 2010	166,162,176	166,162,176

5. Dividends

In the period ended 30 June 2011, the Group did not pay a dividend. (For the period ended 30 June 2010 and for the year ended 31 December 2010: Dividend paid was £nil.)

6. Analysis of net cash and cash equivalents

£000	**Six months to 30 June 2011 Unaudited**	Six months to 30 June 2010 Unaudited	Year to 31 December 2010 Unaudited
Cash and cash equivalents	**2,706**	1,821	4,374
Net cash and cash equivalents	**2,706**	1,821	4,374

7. Risks and Uncertainties

The main risk is judged to arise from potential legislative changes and regulatory challenges and this situation is constantly under review.

As has been announced on 27 June 2011 there is pending legal appeal, to be heard by the European Court Of Justice, relating to the interpretation of recently implemented EU regulation. The Office of Fair Trading ("OFT") had, in the context of the recently implemented EU legislation, reassessed the promotional formulae which the Group currently adheres to and which were agreed in 2007. That reassessment meant that the OFT sought alternative assurances drafted in wider and less specific terms than previously agreed. DM plc was not prepared to accept the alternative assurances in their current form and therefore elected for definitive legal interpretation and specific direction by the court rather than agree to comply with what the Board believes are ambiguous proposals which could risk inadvertent breach in the future. The High Court hearing took place in the first quarter of 2011 and the Group has been complying with the Undertakings given in the light of that judgment in all marketing campaigns. The Board believed that there were grounds to appeal on aspects of the judgment and was granted leave to appeal. An appeal hearing took place, at the Court Of Appeal, in June 2011 and the court decided to refer the appeal to the European Court Of Justice. A date for the hearing of the appeal by the European Court of Justice has yet to be set.

The possibility of a postal strike is judged to be a risk. The Board keeps this matter under review so that, in the event that there is a postal strike, the impact on profits is kept to a minimum by forward planning.

8. Related party transactions

The Group continues to trade on standard commercial terms with related parties as described in the Group Report and Accounts for the year ended 31 December 2010.

9. Interim report

Copies of the interim report posted to all of the Company's shareholders are available at the Company's Registered Office at Green Heys, Walford Road, Ross on Wye, Herefordshire, HR9 5DB.

Company Information

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