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30 May 2012

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Interim results for the six months ended 31 March 2012

Phytopharm plc (PYM: London Stock Exchange) ("Phytopharm" or the "Company" or the "Group") today announces its interim results for the six months ended 31 March 2012, which reflect continued progress of the Group's pharmaceutical development programmes.

Financial summary

- Loss after tax of £4.88 million (HY 2011: £3.60 million).
- Cash and money market investments of £13.33 million (FY 2011: £17.57 million).

Operational summary

- Recruitment into CONFIDENT-PD Phase II clinical study of Cogane™ in patients with Parkinson's disease completed in April 2012. Headline results from the study are expected in February 2013.
- Cogane™ demonstrated efficacy in a genetic preclinical model of amyotrophic lateral sclerosis (ALS, the most common form of motor neurone disease) supporting progression into clinical trials.
- A study of Myogane™ in an animal model of glaucoma was inconclusive due to an unexpectedly low control response which prevented detection of a neuroprotective effect of Myogane™.
- Appointment of Dr Ian Tulloch as a Non-Executive Board Director in February 2012. As planned, Mr Sandy Morrison stepped down from the Board following the Company's Annual General Meeting on 27 March 2012.

Tim Sharpington, CEO, commented "In this period Phytopharm has continued to make progress on its stated objectives and has kept expenditure in line with expectations. We were pleased that Cogane™ demonstrated efficacy in a model of severe ALS, a disease for which there are few treatment options. Completing patient recruitment into our clinical trial evaluating Cogane™ in Parkinson's disease was an important milestone for the Company and we look forward to receiving the headline results from the study early next year."

Operational review

Strategy

Phytopharm plc ("Phytopharm") is a development stage pharmaceutical company developing novel treatments targeting diseases with high levels of unmet need. Our lead series of compounds, the sapogenins (including Cogane™ and Myogane™), has the potential to be a new class of therapy for neurodegenerative diseases including Parkinson's disease (PD), amyotrophic lateral sclerosis ("ALS") and glaucoma.

Phytopharm operates as a virtual company ensuring the majority of our financial resources are focused on our pharmaceutical pipeline. We utilise a network of scientific and clinical experts to help guide our development projects with our experienced pharmaceutical managers overseeing operations.

Our commercially focused development projects have the potential to produce significant treatment advances in our target areas of neurodegeneration and inflammatory disease. Our products are single chemical entities with novel mechanisms of action protected by strong patent families. Our pipeline has been sourced from our own research activities and from licensing activities, particularly from leading research institutions in China with whom the Company has long-standing relationships.

Our objective is to develop products aimed at major markets with high unmet medical need to key value inflection points before seeking late-stage development and commercial partners as appropriate.

Overview

We continue to progress our strategy of focusing on our pharmaceutical programmes, specifically on the development of Cogane™ for Parkinson's disease. In April 2012, we reported completion of the recruitment of patients with Parkinson's disease into the multi-national Cogane™ Phase II dose ranging study (CONFIDENT-PD) which commenced in November 2010. The study is being conducted in leading movement disorder centres in North America and Europe and headline results are expected in February 2013.

We have also completed the preclinical evaluation of Cogane™ in a genetic model of ALS and reported positive data which support the results we reported previously in which Cogane™ showed benefit in an environmental (toxin-induced) model of ALS, in a progressive motor neuropathy model and in a nerve crush model. Collectively the results from these four different models of ALS provide strong support for the utility of Cogane™ in the treatment of this condition.

We have completed a study on Myogane™ in a preclinical model of glaucoma which did not yield a valid result because of an unexpectedly low level of neuronal cell loss in the control group which prevented detection of a neuroprotective action of Myogane™.

Pharmaceutical programmes

Neurodegeneration

Neurodegeneration is the umbrella term for the progressive loss of structure, function or death of neurones. Many neurodegenerative diseases including PD, ALS, glaucoma and Alzheimer's disease occur as a result of neurodegenerative processes that exhibit many similarities suggesting that these diseases are related on a sub-cellular level. Because of the similarities in neurodegeneration across this range of diseases, there is hope that therapeutic advances, such as Phytopharm's lead pharmaceutical programmes Cogane™ and Myogane™, could be beneficial in more than one of these diseases.

The Sapogenins

Cogane™ and Myogane™ are structurally related, small molecule, chemical entities and members of the sapogenin class of compounds. They are orally bioavailable neurotrophic factor modulators that readily cross the blood-brain barrier. Both compounds have demonstrated neuroprotective effects in a range of preclinical models. Specifically, Cogane™ and Myogane™ have been shown to induce and modulate the production of neurotrophic factors.

Both compounds have completed long-term toxicology studies, have been formulated as once daily, orally administered therapies and have completed Phase I studies demonstrating good bioavailability and safety profiles.

Cogane™ is being studied in a Phase II trial of early stage Parkinson's disease. It has also been evaluated for safety and tolerability in patients with Alzheimer's disease.

Additionally, Cogane™ has been assessed in preclinical models of ALS. The positive results in the four models of ALS used provide strong support for the utility of Cogane™ in the treatment of this condition.

Myogane™ has been evaluated in a preclinical model of glaucoma, a neurodegenerative disease of the eye which did not yield a valid result because of a failure to induce sufficient neuronal cell loss in both the treatment and control groups. Data from this study will be further evaluated to determine the next steps for this programme.

The neuroprotective and neurotrophic actions of Cogane™ and Myogane™ suggest potential beneficial effects in other orphan neurodegenerative diseases.

Cogane™ in Parkinson's disease

Parkinson's disease is a movement disorder characterised by muscle rigidity, tremor and a slowing of physical movement (bradykinesia) and, in extreme cases, a loss of physical movement (akinesia). The primary symptoms are the result of altered signalling in an area of the brain, the striatum, responsible for the control of movement. This is caused by degeneration of dopaminergic neurones between the substantia nigra and the striatum parts of the brain, leading to insufficient formation and action of dopamine. Parkinson's disease is therefore termed a neurodegenerative disease. The disease is slow in onset and the appearance of symptoms reflects the gradual loss of dopaminergic neurones.

The prevalence of Parkinson's disease is estimated at being 0.3% of the whole population in industrialised countries, rising to 1% in those over 60 years of age and to 4% of the population over 80. The market size for Parkinson's disease was \$4.1 billion in 2009.

Mode of action

Glial cell-derived neurotrophic factor ("GDNF") and brain derived neurotrophic factor ("BDNF") are naturally occurring proteins in the brain that have been shown to be effective in re-growing damaged nerves. As they are proteins, they cannot be given orally (in tablet or liquid form) because they are degraded in the stomach and intestine and also do not readily cross the blood-brain barrier. GDNF and BDNF can work only when injected into, or when produced by, the brain. Direct injection of GDNF into the area of the brain involved in Parkinson's disease has shown evidence of being clinically effective in restoring the control of movement but requires highly complex and difficult surgical procedures.

Cogane™ has the potential to overcome many of the difficulties associated with GDNF administration. In preclinical models, Cogane™ stimulated the release of GDNF and BDNF in the brain and increased neurite outgrowth. When administered orally in several different preclinical models of Parkinson's disease, Cogane™ reversed the decrease of neurotrophic factors and reversed the loss of dopaminergic neurones in the striatum, the area of the brain most affected in Parkinson's disease.

Progress to date

The profile of Cogane™ suggests that it will have benefit in both the motor and non-motor symptoms of Parkinson's disease. In addition its effect on restoring damaged neurones to a functioning state implies that it might result in a delay in the progression of disease in recently diagnosed patients.

Cogane™ is currently being evaluated in a multi-national Phase II, randomised, double blind, placebo controlled, dose ranging study (CONFIDENT-PD). The study is comparing the safety, tolerability and efficacy of three doses of Cogane™ and placebo when administered for 28 weeks to untreated patients with early stage Parkinson's disease. The study will assess the efficacy of Cogane™ in the treatment of both motor and non-motor symptoms of Parkinson's disease. Recruitment into the study completed in April 2012. Our target remains to have headline results from the study available in February 2013.

Data from preclinical models also indicates that Cogane™, when administered in conjunction with L-DOPA, shows additional benefit over L-DOPA alone. Other data suggests that Cogane™ reduces the side effects associated with L-DOPA. If these effects of improved efficacy and reduced side effects of L-DOPA by co-administration of Cogane™ are also observed in patients, this will have significant benefit in the management of patients with more severe disease.

Cogane™ in motor neurone disease/ALS

ALS, also known as Lou Gehrig's disease, is the most prevalent form of motor neurone disease which generally strikes people between 40 and 60 years of age. It is characterised by progressive loss of both lower (spinal cord and brain stem) and upper (cerebral cortex) motor neurones, which leads to severe muscle weakness and wasting, followed by paralysis and death, generally caused by respiratory failure. There is an urgent need for the development of new approaches to treat this devastating condition.

It is estimated that there are over 30,000 patients living with ALS in the seven major markets. ALS is classified as an orphan disease and, as such, offers the potential for expedited development.

Cogane™ in motor neurone disease/ALS

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Progress to date

A study of Cogane™ in the genetic “gold standard” *in vivo* model of ALS completed during the period. The model has a mutation in the SOD1 gene (SOD1^{G93A}); mutation of the SOD1 gene is a known cause of ALS in humans. In this study, Cogane™ was administered orally for 50 days, commencing after ALS-type symptoms were manifest. This is therefore considered to be a model of severe, late-stage ALS. The main findings from the study are:

- Administration of Cogane™ resulted in a 30-50% improvement in muscle strength in one muscle type compared to both the untreated control group and a group treated with riluzole;
- Treatment with Cogane™ also resulted in an increase in the number of motor units (a measure of functional motor neurones) compared with both the untreated and riluzole groups;
- Treatment effects were less clear in a second muscle type which was more severely damaged in the model, though the group treated with Cogane™ again showed an improvement in strength compared to the riluzole treated group; and
- Histopathology data shows that administration of Cogane™ reduced the loss of spinal cord motor neurones by 39% compared with the number damaged in the untreated group (a statistically significant difference; p=0.008). Treatment with riluzole resulted in a 29% but not statistically significant reduction. Additionally, microscopic examination showed that Cogane™ protected muscle composition, supporting the results reported previously on muscle strength.

This study was performed by Professor Linda Greensmith’s group at University College, London with the financial support of the Motor Neurone Disease Association, a UK based charitable organisation which provided a grant to cover the costs of the study.

These results support those previously reported by Phytopharm in which Cogane™ showed benefit in an environmental (toxin-induced) model of ALS, in a progressive motor neuropathy model and in a nerve crush model. Collectively the results from these four different models of ALS provide strong support for the utility of Cogane™ in the treatment of this condition.

As Cogane™ is already in clinical trials for Parkinson’s disease, rapid progression into efficacy indicating trials should be possible, subject to funding. Furthermore, ALS is an orphan indication, a classification which supports expedited clinical development. Cogane™ has been granted Orphan Drug status by both the European Commission and by the US Food & Drug Administration for development in ALS and this will allow significant access to the regulatory authorities for advice and expedited clinical progression as well as providing financial advantages.

Glaucoma

Current pharmacological treatments for glaucoma are predominantly focused on reducing the elevated intra ocular pressure (“IOP”) in the eye, which is often associated with glaucoma. However, a significant number of patients with glaucoma do not exhibit raised IOP and, in addition, a significant number of patients whose IOP is successfully reduced still experience ongoing neurodegeneration resulting in deterioration of sight. We therefore believe that there is a major unmet need and a commercial opportunity for products which could successfully treat the underlying neurodegenerative process in glaucoma.

There is a growing body of scientific literature describing the neuroprotective effects of neurotrophic factors, specifically brain derived neurotrophic factors (BDNF) and glial-cell derived neurotrophic factors (GDNF) in models of glaucoma. Myogane™ has demonstrated neuroprotective effects in a range of preclinical models of neurodegenerative diseases. Specifically, Myogane™ has been shown to modulate the production of neurotrophic factors in a number of cell types and to have beneficial neuroprotective and neurorestorative effects on retinal ganglion cells, the cells which degenerate in glaucoma.

The Company has recently completed a study with Myogane™ in an animal model of glaucoma that was inconclusive. The study did not yield a valid result because of an unexpectedly low level of neuronal cell death in the control group which prevented detection of a neuroprotective effect of Myogane™ both treatment and control groups.

The study was designed to evaluate the neuroprotective effects of treatment with Myogane™ in an established model of glaucoma. In this model intraocular pressure is elevated in order to induce neuronal cell loss in the retina. The endpoint was a comparative measurement of neuronal cell loss. However, the extent of induced neuronal cell loss was much less than anticipated (from literature precedent) in both treatment and control groups. While there were some indications of a neuroprotective effect following Myogane™ treatment, it is not possible to draw definitive conclusions because of the limited neurodegeneration in the control group. Pharmacokinetic evaluation indicated that levels of Myogane™ in the plasma were broadly in line with that expected from previous studies and that Myogane™ was present in the retina. Previous *in vitro* studies have demonstrated that Myogane™ is protective of retinal ganglion cells, the neuronal cells which degenerate in glaucoma. This study was performed with the financial support of the UK Technology Strategy Board. The Company will further analyse the results from this study in consultation with our scientific advisors before deciding on the next steps for this programme.

Alzheimer's disease

Cogane™ and Myogane™ protect cortical neurones from glutamate and β -amyloid induced neuronal damage and increase neurite outgrowth *in vitro*. Cogane™ and Myogane™ also increase the density of muscarinic receptors both *in vitro* and *in vivo*. *In vivo*, Cogane™ and Myogane™ improve cognition in the aged rat and β -amyloid/ibotenic acid rat model of Alzheimer's disease.

The safety, tolerability and pharmacokinetics of orally administered Cogane™ in patients with Alzheimer's disease have previously been assessed in a twelve week study. Cogane™ was generally well tolerated in this patient group. Further work may be undertaken in this area if additional resources become available.

P61 programme

The P61 programme was established to investigate the known pharmacological properties of curcumin and gingerol. P61 is a series of novel new chemical entities ("NCEs") which exhibit anti-inflammatory, anti-remodelling, anti-spasmodic and TRPV1 modulating activities. This range of activity within single molecules could provide attractive therapeutic options for a number of inflammatory diseases including chronic obstructive pulmonary disease, asthma, atopic dermatitis, psoriasis, gastrointestinal inflammatory conditions and pain. A lead compound has been identified and is being characterised to better understand its pharmaceutical potential.

Legacy Products

Hoodia

The Council for Scientific and Industrial Research, South Africa continues to evaluate the potential of Hoodia gordonii as an appetite suppressant and is reviewing the data from the clinical studies conducted to date in order to determine an appropriate development programme.

Phytopica®

We have recently signed a global licence agreement for Phytopica® with a Chinese company, Hebei Meiwei Chinese Medicinal Herbs Limited. Phytopharm retains a commercial interest in the project and will receive a proportion of any future commercial milestones and royalties from the project following a period of further product development by Hebei Meiwei.

Financial review

The financial performance for the six month period reflects the Group's ongoing pharmaceutical development activities, particularly the continued progress of our pharmaceutical development programmes in neurodegenerative diseases.

We have continued to implement our strategy focused on the progression of our pharmaceutical programmes with a lean operational structure. Based on our current expectations Phytopharm is financed through to the end of 2013.

A number of changes to the Research and Development corporation tax credits system were announced in the March 2012 Budget Statement, which if enacted into legislation, may have a significant positive impact on the level of the corporation tax refund for the current and future financial years. Further details of the impact of the proposed changes are set out under Taxation below.

Revenue

Revenue from continuing operations for the period of £0.02 million (HY 2011: £0.06 million) was principally generated from residual activities on our functional food programmes. In addition other income from a grant of £0.07 million (HY 2011: £nil) has been received in respect of the Myogane™ development programme in glaucoma.

Research and development expenses

Research and development costs for the period amounted to £4.83 million compared to £3.60 million for the six months ended 31 March 2011. This increase in expenditure on research and development activities reflects the ongoing CONFIDENT-PD clinical study.

Administration expenses

Our administrative expenses remain constant at £0.55 million (HY 2011: £0.55 million) in line with our virtual business model.

Finance income

Finance income represents interest received and receivable from our cash balances which amounted to £0.12 million during the period compared to £0.18 million for the six months ended 31 March 2011. This reduction reflects the utilisation of cash resources primarily to fund the Group's research and development activities.

Taxation

The tax credit of £0.29 million for the period (HY 2011: £0.30 million) represents amounts that are expected to be received under current legislation on research and development tax credits.

A number of changes to the Research and Development corporation tax system were announced in the March 2012 Budget Statement. Confirmation of the final structure of the proposed changes is expected in July 2012. These changes include the removal of the current cap on the level of refund payable at the level of PAYE and NIC paid for accounting periods ending on or after 6 April 2012. If these are enacted as currently planned the Group expects an additional corporation tax refund of £461,000 for the six months ended 31 March 2012.

Balance sheet

Non-current assets representing property, plant and equipment amounted to £0.08 million compared to £0.08 million at 30 September 2011 and £0.09 million at 31 March 2011.

Current assets

Current assets comprise trade and other receivables, tax receivable, money market investments and cash and cash equivalents which decreased to £14.10 million at 31 March 2012 (30 September 2011: £18.51 million; 31 March 2011: £21.11 million).

Money market investments and cash and cash equivalents at 31 March 2012 amounted to £13.33 million compared to £17.57 million at 30 September 2011 and £20.38 million at 31 March 2011, reflecting net cash outflows from operating activities. Money market investments represent fixed-rate, short-term deposits placed with a range of banks at fixed terms with a maturity date of more than three months. Cash and cash equivalents are invested for a period of ninety days or less.

Our current tax receivable at 31 March 2012 increased to £0.29 million from £0.26 million at 31 March 2011 (30 September 2011: £0.48 million). The current tax receivable has been calculated based on the current Research and Development corporation tax system and therefore is capped at the level of PAYE and NIC payable by the Group as set out under Taxation above.

Current liabilities

Our current liabilities represent trade and other payables amounting to £3.02 million at 31 March 2012 (30 September 2011: £2.63 million; 31 March 2011: £1.26 million). The increases during the six months ended 31 March 2012 and during the twelve months ended 30 September 2012 reflect the recognition of costs incurred but not yet settled primarily for the CONFIDENT-PD clinical study.

Equity

Share capital and share premium at 31 March 2012 remain unchanged at £3.47 million and £77.28 million respectively compared to 30 September 2011.

Cash flow

Net cash used in operating activities for the period was £4.30 million, an increase from £3.35 million from the previous period reflecting our continued focus on the development of our pharmaceutical programmes.

We expect net cash outflow to continue as we progress the development of our pharmaceutical programmes, primarily Cogane™ in the Phase II proof of concept and dose range finding clinical study (CONFIDENT-PD). We also continue to maintain our strong relationships with disease specific charities which may result in additional funding being available.

Outlook

We look forward to continuing the progress of our pharmaceutical programmes during the remainder of 2012 and into 2013. This development work will include the completion of the CONFIDENT-PD clinical study and reporting of the headline results in February 2013. In parallel discussions will continue with potential partners. If the results from CONFIDENT-PD are positive, the Company will endeavour to maximise shareholder value through partnership deals. We will also be evaluating opportunities following the successful completion of our investigations into the effects of Cogane™ in ALS which may, funding dependent, allow us to investigate further efficacy indicating clinical trials in this indication. We also expect to complete the current phase of the P61 programme and evaluate with scientific advisors the next steps for Myogane™ in glaucoma.

In line with our virtual operational structure, we will continue to outsource the majority of our operations to specialist external organisations enabling us to operate with a low headcount and minimal infrastructure. This lean operational structure confers substantial cost and technical benefits as the nature and range of our activities change as our programmes progress through the various stages of development. Efficiency and cost control continue to be a key focus.

Forward-looking statements

Certain information included in these statements is forward-looking and involves risk and uncertainties that could cause results to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions, market estimates, the Company's plans and objectives for future operations, including future revenues, financial plans and expected expenditures and divestments. All forward-looking statements in this report are based on information known to the Company on the date of this release. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the Company's forward looking-statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of the Company.

Principal risks and uncertainties

The nature of pharmaceutical development is such that there are significant inherent risks due to the long and complex development process.

Below are those principal risks and uncertainties that the Board considers could have a material impact on the Group's operational results, financial condition and prospects. These risks are not in any particular order of priority and there may be other risks that are either currently unknown or not considered material which could have a similar impact on the Group's business in the future.

The Board reviews each area of the business at least annually to identify material risks and the controls in place to manage these risks. This comprehensive review is undertaken as part of the review of internal controls as set out on pages 30 and 31 of the 2011 Annual Report.

Industry risk

In common with other research and development stage businesses, Phytopharm's business risks relate principally to the success of its development programmes and to the need to fund its operations through these. The success of the Group's programmes depends upon the quality of the design and the implementation of each programme. The progress of the development programmes therefore represents the best indicator of the Group's performance. A full review of the programmes is given in the Business Review on pages 2 to 5.

Financial risk

The Group expects to continue to make losses until it is able to increase its revenues sufficiently. Additional funds such as charitable income, collaboration deals and/or further financing may be required to allow further scope for product development. The availability and timing of such additional external funds represent a material uncertainty, although the Group currently has sufficient funds to finance its operational activities for at least the next twelve months.

Clinical and regulatory risk

Successful commercialisation of the Group's products is likely to depend on successful progress through clinical studies and registration. Development of product candidates involves a lengthy and complex process and products may not meet the necessary requirements in terms of toxicity, efficacy or safety, or the relevant regulators may not agree with the conclusions of the Group's research and may require further testing or withhold approval altogether.

Competition risk

The Group's success depends on acceptance of the Group's products by the markets, including physicians and third party payers, and consequently the Group's progress may be adversely affected if it is unable to achieve market acceptance of its products. Factors which may affect the rate and level of market acceptance of any of the Group's products include the existence or entry on to the market of superior competing products or therapies and the price of the Group's products compared to competing products and overall cost effectiveness of the product.

Intellectual property risk

The Group's success depends in part on its ability to obtain and maintain protection for its intellectual and proprietary information, so that it can stop others from making, using or selling its inventions or proprietary rights. The Group's patent applications may not be granted and its existing patent rights may be successfully challenged and revoked.

Counterparty risk

The Group relies on third party organisations to conduct its clinical trials and to manufacture its products. If the relationship with, or performance of, any of these partners is adversely affected, the Group's results or operations may be adversely impacted. The Group also derives revenue or financial support from its collaborators and expects to derive additional support from partnering with certain charitable organisations. If these relationships are adversely affected, or if the products involved fail to continue to make satisfactory progress, the Group's results or operations may be adversely impacted.

Foreign exchange risk

The Group records its transactions and prepares its financial statements in sterling. Where possible the Group maintains natural hedges by matching foreign currency income with foreign currency expenditure. The Group incurs expenditure in foreign currency relating principally to clinical trials which may exceed any revenues in foreign currencies. To the extent that income and expenditure in foreign currencies are not matched, fluctuations in exchange rates between sterling and foreign currencies, principally US dollar and Euro, may result in realised or unrealised foreign exchange gains and losses. Where there is certainty of the amount and timing of expenditure of foreign currencies, the Group may purchase financial instruments to minimise any foreign exchange gains or losses. Where the timing and/or the amount to be received is uncertain, risk management is more difficult and the Group will use financial instruments wherever possible. To the extent that financial instruments are not utilised, any fluctuations in foreign exchange movements may have a material adverse impact on the results from operating activities.

Phytopharm plc Responsibility statement

The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

The Directors of Phytopharm plc are listed in the Phytopharm plc Annual Report for the year ended 30 September 2011 with the exception of Dr I F Tulloch who was appointed to the Board on 2 February 2012. Mr A D Morrison resigned from the Board on 27 March 2012.

By order of the Board

Zoe McGowan
Company Secretary
29 May 2012

Phytopharm plc

Independent review report to Phytopharm plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2012, which comprise the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP

Chartered Accountants

Cambridge

29 May 2012

Notes:

- a. The maintenance and integrity of the Phytopharm plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Interim Report since it was initially presented on the website.
- b. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Phytopharm plc
Consolidated statement of comprehensive income
for the six months ended 31 March 2012

	Notes	Unaudited Six months ended 31 March 2012 £	Unaudited Six months ended 31 March 2011 £
Revenue	2	17,474	61,392
Cost of sales		—	—
Gross profit		17,474	61,392
Other income	2	66,343	—
Operating expenses	3	(5,380,180)	(4,143,370)
Operating loss		(5,296,363)	(4,081,978)
Finance income		120,315	180,083
Loss before taxation		(5,176,048)	(3,901,895)
Taxation	4	291,786	297,446
Loss and total comprehensive income for the period		(4,884,262)	(3,604,449)
Basic and diluted loss per ordinary share (pence)	5	(1.4)	(1.0)

The notes on pages 15 to 19 form an integral part of these condensed consolidated interim financial statements.

Phytopharm plc
Consolidated balance sheet
at 31 March 2012

	Notes	Unaudited at 31 March 2012 £	Unaudited at 31 March 2011 £	Audited at 30 September 2011 £
Non-current assets				
Property, plant and equipment		83,394	94,317	83,646
Non-current assets		83,394	94,317	83,646
Current assets				
Trade and other receivables	6	475,425	467,956	459,954
Current tax receivable		291,786	263,548	479,229
Money market investments		10,600,000	16,500,000	14,500,000
Cash and cash equivalents		2,734,240	3,878,517	3,074,476
Current assets		14,101,451	21,110,021	18,513,659
Total assets		14,184,845	21,204,338	18,597,305
Liabilities and equity				
Trade and other payables	7	3,023,463	1,259,624	2,633,307
Current liabilities		3,023,463	1,259,624	2,633,307
Equity attributable to the owners of the parent				
Ordinary shares	8	3,468,019	3,467,336	3,468,019
Share premium		77,283,731	77,280,223	77,283,731
Merger reserve		(204,211)	(204,211)	(204,211)
Accumulated loss		(69,386,157)	(60,598,634)	(64,583,541)
Total equity		11,161,382	19,944,714	15,963,998
Total liabilities and equity		14,184,845	21,204,338	18,597,305

The notes on pages 15 to 19 form an integral part of these condensed consolidated interim financial statements.

Phytopharm plc
Consolidated statement of changes in equity
for the six months ended 31 March 2012

	Notes	Unaudited Ordinary shares £	Unaudited Share premium £	Unaudited Merger reserve £	Unaudited Accumulated losses £	Unaudited Total £
Balance at 1 October 2010		3,466,774	77,278,113	(204,211)	(57,062,371)	23,478,305
Comprehensive income						
Loss attributable to owners of the parent		—	—	—	(3,604,449)	(3,604,449)
		—	—	—	(3,604,449)	(3,604,449)
Transactions with owners:						
Issue of ordinary shares	8	562	2,110	—	—	2,672
Purchase of shares in Phytopharm plc	8	—	—	—	(375)	(375)
Credit in respect of share options		—	—	—	68,561	68,561
Transactions with owners		562	2,110	—	68,186	70,858
Balance at 31 March 2011		3,467,336	77,280,223	(204,211)	(60,598,634)	19,944,714
Balance at 1 April 2011		3,467,336	77,280,223	(204,211)	(60,598,634)	19,944,714
Comprehensive income						
Loss attributable to owners of the parent		—	—	—	(4,053,881)	(4,053,881)
		—	—	—	(4,053,881)	(4,053,881)
Transactions with owners:						
Issue of ordinary shares	8	683	3,508	—	—	4,191
Purchase of shares in Phytopharm plc	8	—	—	—	2	2
Credit in respect of share options		—	—	—	68,972	68,972
Transactions with owners		683	3,508	—	68,974	73,165
Balance at 30 September 2011 (audited)		3,468,019	77,283,731	(204,211)	(64,583,541)	15,963,998
Balance at 1 October 2011		3,468,019	77,283,731	(204,211)	(64,583,541)	15,963,998
Comprehensive income						
Loss attributable to owners of the parent		—	—	—	(4,884,262)	(4,884,262)
		—	—	—	(4,884,262)	(4,884,262)
Transactions with owners:						
Purchase of shares in Phytopharm plc	8	—	—	—	(2,071)	(2,071)
Credit in respect of share options		—	—	—	83,717	83,717
Transactions with owners		—	—	—	81,646	81,646
Balance at 31 March 2012		3,468,019	77,283,731	(204,211)	(69,386,157)	11,161,382

The notes on pages 15 to 19 form an integral part of these condensed consolidated interim financial statements.

Phytopharm plc
Consolidated cash flow statement
for the six months ended 31 March 2012

	Unaudited Six months ended 31 Mar 2012 £	Unaudited Six months ended 31 Mar 2011 £
Cash flow from operating activities		
Operating loss	(5,296,363)	(4,081,978)
Depreciation	16,203	28,201
Gain on disposal of property, plant and equipment	—	(15,239)
Share option charge	83,717	68,561
	(5,196,443)	(4,000,455)
Changes in working capital		
Decrease in trade and other receivables	25,090	79,745
Increase in trade and other payables	390,156	124,709
Cash used in operations	(4,781,197)	(3,796,001)
Taxation received	479,229	445,069
Net cash used in operating activities	(4,301,968)	(3,350,932)
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,951)	(9,807)
Sale of property, plant and equipment	—	15,432
Purchase of shares in Phytopharm plc	(2,071)	(375)
Interest received	79,754	113,356
Net cash generated from investing activities	61,732	118,606
Cash flows from financing activities		
Issue of ordinary shares	—	2,672
Movement in money market investments	3,900,000	6,000,000
Net cash generated from financing activities	3,900,000	6,002,672
Movements in cash and cash equivalents in the period	(340,236)	2,770,346
Cash and cash equivalents at the beginning of the period	3,074,476	1,108,171
Cash and cash equivalents at the end of the period	2,734,240	3,878,517
Money market investments at the end of the period	10,600,000	16,500,000
Total cash, cash equivalents and money market investments	13,334,240	20,378,517

The notes on pages 15 to 19 form an integral part of these condensed consolidated interim financial statements.

Phytopharm plc
Notes to the unaudited financial statements
for the six months ended 31 March 2012

1. General information, accounting policies and basis of preparation

Phytopharm plc is a public limited company incorporated and domiciled in the UK, with a listing on the London Stock Exchange. The address of its registered office is Lakeview House, 2 Lakeview Court, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6UA.

Phytopharm is a development stage pharmaceutical company developing novel treatments targeting diseases with high levels of unmet need.

This condensed consolidated financial information was approved for issue on 29 May 2012 and comprises the consolidated interim balance sheets as at 31 March 2012 and 31 March 2011 and the year end balance sheet at 30 September 2011 together with the related consolidated interim statements of comprehensive income, cash flows and changes in equity for the periods ended 31 March 2012 and 31 March 2011 of Phytopharm plc.

In preparing this condensed consolidated financial information in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union, management has used the principal accounting policies set out in the Group's annual financial statements for the year ended 30 September 2011, which have been prepared in accordance with IFRSs as adopted by the European Union.

The condensed consolidated interim financial information has not been audited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 but has been reviewed by the auditors in accordance with ISRE 2410 (UK and Ireland) issued by the Auditing Practices Board. The Group's statutory accounts for the year ended 30 September 2011 were approved by the Board of Directors on 9 December 2011 and have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Going concern

This interim financial information has been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. As at 31 March 2012 the Company had cash and money market investments of £13,334,240 (31 March 2011: £20,378,517).

After making enquiries and taking into account management's estimate of future expenditure, the Directors have a reasonable expectation that the Group will have adequate financial resources to continue in operation for the foreseeable future.

Critical accounting policies

The preparation of the consolidated interim financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The main accounting judgements relate to the period over which research and development costs are recognised and the share option charge and underlying assumptions. The Directors have assessed the inputs to the share option charge calculation and there is not considered to be a reasonable change to a metric that would result in a material adjustment to the share option charge.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Accounting policies

The accounting policies adopted are consistent with those of the financial statements for the year ended 30 September 2011, as described in those financial statements on pages 41 to 44, except for those matters relating to the adoption of new Standards as set out below.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 October 2011:

Annual improvements 2010 (those improvements effective 1 January 2011);

Annual improvements 2011 (effective 1 January 2013);

Amendment to **IFRS 7**, 'Financial instrument disclosures' enhancing disclosures about transfers of financial assets (effective 1 July 2011); and

Amendment to **IAS 24**, 'Related party' (effective 1 January 2011).

None of the above new standards, amendments to standards or interpretations which were mandatory for the first time for the financial year beginning 1 October 2011 have had a significant impact on the financial statements of the Group:

Phytopharm plc
Notes to the unaudited financial statements
for the six months ended 31 March 2012

The following standards and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 October 2012.

IFRS 9, 'Financial instruments' on 'classification and measurement' (effective 1 January 2015);

IFRS 10, 'Consolidated financial statements' (effective 1 January 2013);

IFRS 11, 'Joint arrangements' (effective 1 January 2013);

IFRS 12, 'Disclosure of interests in other entities' (effective 1 January 2013);

IFRS 13, 'Fair value measurement' (effective 1 January 2013);

Amendment to **IAS 19**, 'Employee benefits' resulting from post employment benefits (effective 1 January 2013);
and

Amendment to **IAS 27**, 'Consolidated and separate financial statements' reissued as 'separate financial statements' (effective 1 January 2013).

The Directors do not anticipate that the adoption of these standards will have a significant impact on the financial statements of the Group when they come into effect for periods commencing on or after 1 October 2012.

Phytopharm plc
Notes to the unaudited financial statements
for the six months ended 31 March 2012

2. Business and geographical segments

The Group's development and other functions operating across all the Group's research programmes are managed centrally and are reported internally as a single business. The chief operating decision-maker has been identified as the Executive Directors of Phytopharm plc. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segment based on these reports. Accordingly, the Directors consider that there is only one reporting segment.

Revenue by destination of the sale is as follows:

	Unaudited Six months ended 31 Mar 2012 £	Unaudited Six months ended 31 Mar 2011 £
Revenue		
Europe	17,474	4,761
South Africa	—	56,631
	17,474	61,392
Other income		
United Kingdom ⁽ⁱ⁾	66,343	—
	83,817	61,392

⁽ⁱ⁾ Represents grant income received

All non-current assets are located in the United Kingdom (2011: All).

3. Operating expenses

	Unaudited Six months ended 31 Mar 2012 £	Unaudited Six months ended 31 Mar 2011 £
Research and development	4,831,513	3,597,198
Administrative expenses	548,667	546,172
	5,380,180	4,143,370

4. Tax on loss on ordinary activities

No corporation tax liability arises on the results for the period due to the loss incurred (2011: £nil). The Company has taken advantage of the Research and Development corporation tax credits introduced in the Finance Act 2000 whereby a company may surrender corporation tax losses incurred on research and development expenditure for a corporation tax refund.

A number of changes to the Research and Development corporation tax system were announced in the March 2012 Budget Statement. Confirmation of the final structure of the proposed changes is expected in July 2012. These changes include the removal of the current cap on the level of refund payable at the level of PAYE and NIC paid for accounting periods ending on or after 6 April 2012. If these are enacted as currently planned the Group expects an additional corporation tax refund of £461,000 for the six months ended 31 March 2012.

Phytopharm plc
Notes to the unaudited financial statements
for the six months ended 31 March 2012

5. Loss per ordinary share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period after the deduction of the weighted average number of the ordinary shares held by the employee benefit trust during the period.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has no dilutive potential ordinary shares in issue because it is loss making.

	Unaudited Six months ended 31 Mar 2012 £	Unaudited Six months ended 31 Mar 2011 £
Attributable loss (£)	(4,884,262)	(3,604,449)
Weighted average number of shares in issue	346,665,513	346,586,466
Basic and diluted loss per ordinary share (pence)	(1.4)	(1.0)

6. Trade and other receivables

	Unaudited 31 Mar 2012 £	Unaudited 31 Mar 2011 £	Audited 30 Sep 2011 £
Trade receivables	—	10,290	5,581
Other receivables	79,135	50,063	86,395
Prepayments and accrued income	396,290	407,603	367,978
	475,425	467,956	459,954

7. Trade and other payables

	Unaudited 31 Mar 2012 £	Unaudited 31 Mar 2011 £	Audited 30 Sep 2011 £
Trade payables	657,674	327,050	665,109
Other taxation and social security	39,221	35,001	37,945
Other payables	11,107	10,625	10,662
Accruals and deferred income	2,315,461	886,948	1,919,591
	3,023,463	1,259,624	2,633,307

8. Ordinary shares

Phytopharm plc	Ordinary shares Number	Ordinary shares of 1 pence each £	Share premium £
At 1 October 2010	346,677,433	3,466,774	77,278,113
Issued under share option scheme	56,163	562	2,110
At 31 March 2011	346,733,596	3,467,336	77,280,223
Issued under share option scheme	68,376	683	3,508
At 30 September 2011 and 31 March 2012	346,801,972	3,468,019	77,283,731

No shares have been issued in the six months ended 31 March 2012. In the year ended 30 September 2011 the Company issued 124,539 new ordinary shares of one pence each for total cash consideration of £6,863 following the exercise of share options. The nominal value of these shares was £1,245.

Netted against the accumulated loss are purchases of shares in Phytopharm plc, which relate to the Phytopharm Share Incentive Plan 2007, under which the Company issued one "Matching Share" for every "Partnership Share" purchased by the employee. All shares are held by the scheme Trustees until the shares vest unconditionally with the employee. During the period, the Group purchased 25,955 Ordinary Shares of one pence (30 September 2011: 5,171; 31 March 2011: 5,171) at a total cost of £2,071 (30 September 2011: £373; 31 March 2011: £373).

9. Related party transactions

There have been no related party transactions in the six months ended 31 March 2012.

Phytopharm plc
Notes to the unaudited financial statements
for the six months ended 31 March 2012

10. Financial risk management

The Group's activities expose it to a variety of financial risks: capital risk, credit risk, liquidity risk, and foreign currency risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 September 2011.

There have been no changes in any risk management policies since year end and no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities. There were no reclassifications of financial assets during the period.

11. Seasonality

The Group's financial results have not historically been subject to any significant seasonal trends.

12. Post balance sheet events

A number of changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012. Further reductions to the main rate are proposed to reduce the rate to 22% from 1 April 2014. These further changes had not been substantively enacted at the interim balance sheet date. As the Group does not have any recognised deferred tax assets or liabilities, these expected changes would not have an impact on the financial statements at the interim balance sheet date.

Phytopharm plc
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