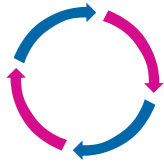




Innovative products for consumer health

FUTURA MEDICAL plc
Interim report **2011**



Futura Medical plc (“Futura”) develops innovative products for the consumer healthcare market.

The Company’s strategy is to develop innovative products and out-license their manufacture and distribution to major pharmaceutical and healthcare groups.

Futura is developing a portfolio of products in sexual healthcare and pain relief management and is evaluating further therapeutic opportunities as potential additions to its pipeline.

Futura’s shares trade on the AIM market of the London Stock Exchange and the Company is based at The Surrey Research Park, Guildford, Surrey.

Our business strategy is centred on selecting and developing products based on five key criteria:

- **Return on Investment:** we focus on consumer healthcare products that offer the potential for a significant return on the costs of development.
- **Product Profile:** we focus on topically applied medicines, either stand-alone or in combination with a medical device. We incorporate existing chemical entities into our products which gives our development activities a lower risk profile.
- **Over The Counter (“OTC”):** our aim is to produce safe and effective OTC products made available to consumers on a general retail basis or through chemists without the need for a doctor’s prescription.
- **Strong Intellectual Property:** the products are underpinned by our developing and retaining valuable intellectual property including: know-how, patents and trademarks to protect their commercial position.
- **Licensing:** we aim to out-license our products during their development to established pharmaceutical and healthcare groups that represent the best potential commercial opportunities.



- Significant progress across the Company and in particular with two products, CSD500 and PET500 – Worldwide rights licensed to Ansell Limited in February 2011 with launch expected 2012
- Placing in March 2011 raised £3.20 million (£3.07 million net of expenses), strengthening Futura's balance sheet
- Net loss of £0.62 million (H1 2010: Net loss of £0.44 million)
- Cash resources of £3.40 million at 30 June 2011 (30 June 2010: £1.32 million)

Post Balance Sheet events

- CSD500 – CE mark awarded in August 2011 clearing regulatory pathway for launch as a Durex® branded condom

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We have several products in our development pipeline for sexual healthcare and pain relief management and we are also working on the next generation of product opportunities.

Our licensing partnerships

Futura has a global distribution agreement with the world's largest branded condom manufacturer and distributor, Reckitt Benckiser plc ("Reckitt Benckiser"), makers of the Durex® condom range, for CSD500 for the lifetime of its patents. CSD500 is a condom aimed at helping healthy men maintain a firmer erection during intercourse whilst wearing a condom.

Futura also has a global development and licensing agreement with Reckitt Benckiser for MED2002, our topical treatment for erectile dysfunction.

Futura signed an exclusive worldwide agreement in February 2011 with Ansell Limited ("Ansell") for the commercialisation of PET500, our product for enhanced sexual control.

Futura has a development agreement with GlaxoSmithKline plc ("GSK") for TPR100, our product for pain relief. Under the terms of the agreement GSK will fund and be responsible for all clinical and regulatory development. GSK will also make modest annual payments to Futura whilst development work proceeds. Subject to satisfactory clinical outcomes and regulatory approvals both parties expect to enter into a commercial distribution agreement in due course.

dermasys® – Our proprietary drug delivery technology

Futura has developed a highly efficient and proprietary transdermal delivery technology, DermaSys®, for the absorption of active molecules through the skin. DermaSys® is a versatile technology in that it can be tailored to suit the specific active compound being used and the therapeutic indication. Such targeted delivery offers an optimised profile in terms of dose, onset time and duration of effect, as well as an improved safety profile through lower systemic uptake and the reduced risk of side effects.

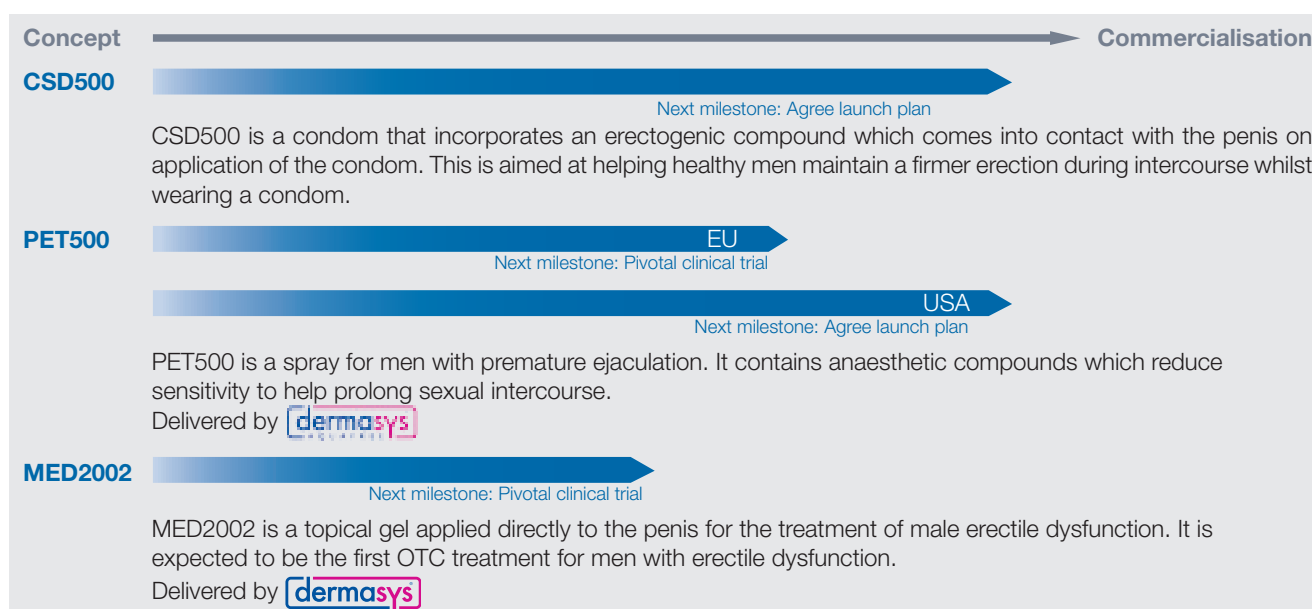
Whilst developing PET500, our product for enhanced sexual control, we also expanded the DermaSys® delivery technology platform and produced a new and unique delivery system, DermaSys® AquaFree, which does not contain water. DermaSys® AquaFree enables drugs that are water sensitive (hydrolytically unstable or which have only limited hydrolytic stability) to be developed into potentially commercially attractive products with the additional benefit of rapid transdermal delivery.

To maximise the value of these intellectual property assets, we continue to evaluate their use with a range of compounds.

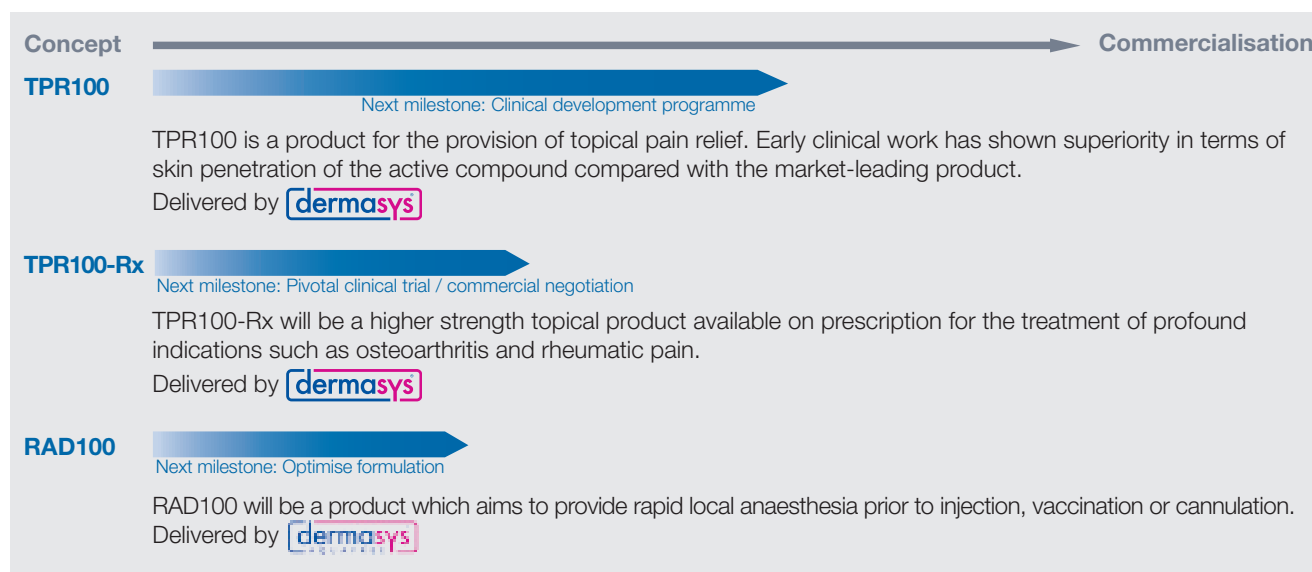


The principal activity of the Group is the research and development of medical devices and pharmaceutical drugs and their commercial exploitation with the focus being on OTC products for sexual healthcare and pain relief management.

Sexual healthcare



Pain relief management



Chairman's and Chief Executive's Joint Review

Dr William Potter and James Barder



The first six months of this financial year were a period of significant progress at Futura, culminating in the award of the CE mark for CSD500 a few weeks after the period end.

The award of the CE mark to Reckitt Benckiser is expected to be transformational for Futura which now has two products on track that have the potential to produce recurring royalty income. These two products, our novel condom CSD500 and our sexual control enhancer PET500, are both

licensed to major global companies and we believe that both have significant sales potential worldwide. Futura is, therefore, on the threshold of becoming a company in receipt of recurring royalties, heralding the exciting next phase in the Company's development.

The first half of the 2011 financial year saw significant progress in the commercialisation of Futura's existing portfolio. In early February, we were delighted to announce an exclusive worldwide agreement with Ansell Limited, one of the world's major sexual health companies, for PET500, Futura's innovative product for enhanced sexual control. Under the terms of the agreement, Futura will receive a significant royalty rate on sales of PET500, which is expected to launch early in 2012. In June we were able to announce that the regulatory authority had recommended the CSD500 dossier for review by its Review Panel. The formal award of the CE mark followed in August which enables CSD500 to be marketed in 29 European territories and a number of other non-European territories that recognise the CE mark process. This is therefore an exciting time for Futura. We are moving closer to the launch of CSD500, which is licensed to Reckitt Benckiser, and PET500, licensed to Ansell Limited. The branding of these two products, and the details of their launch, is subject to commercial confidentiality. It is therefore unlikely that Futura will be able to provide shareholders with detailed information in the period up to the launch of these two products.

In addition to supporting our commercial partners in the period up to the launches of CSD500 and PET500 we will accelerate the progression and broadening of our development pipeline. Our product pipeline remains centred on our two areas of expertise, sexual health and pain relief. However, where we identify a compelling commercial application for our DermaSys® technology outside of these two areas we will give it serious consideration.

At Futura we have a rigorous approach to vetting new products and we should stress that our interest is only in evidence-based products where robust clinical data can be generated. Our initial evaluation includes four key criteria: performance, aesthetics, stability and defensible intellectual property. Unless a new opportunity gives a clear indication of meeting these criteria then the product will not be moved forward to the next stage of development.

Portfolio updates – Sexual healthcare

CSD500: Condom safety device

During the first half, we were focused on working with Reckitt Benckiser to address some minor points raised by the regulatory authority in connection with the CSD500 regulatory dossier. These points were satisfactorily resolved and in June we were able to announce that the regulatory authority had recommended the dossier for review by its Review Panel. The formal award of the CE mark to Reckitt Benckiser followed in August and will enable CSD500 to be marketed in 29 European territories and a number of non-European territories that recognise the CE mark process.

CSD500's unique intellectual property position has been protected throughout the world including the principal consumer markets within Europe, the USA and Canada through patents now granted or proceeding to grant in 36 countries with one application still pending.

CSD500 benefits from three marketing claims which have been approved by the regulatory authorities: the maintenance of a firmer erection, increased penile size and a longer lasting sexual experience for women. These claims were demonstrated in a statistically significant user study involving 108 couples.

Reckitt Benckiser, which views CSD500 as a global opportunity, is currently working on the detailed positioning of these claims ahead of the launch of the product as a Durex® branded condom. The correct positioning within the market of CSD500 is critical to its commercial success as sexual healthcare is an area that requires sensitive marketing. Pfizer and Eli Lilly, the US pharmaceutical groups, have shown what can be achieved in the way that they raised awareness and acceptability of erectile dysfunction. We believe Reckitt Benckiser has the commercial expertise to make CSD500 a financial success and we look forward to updating the market on this work where possible. Our agreement with Reckitt Benckiser restricts further comment.

As previously announced, the results of our own market research reinforce the commercial potential of CSD500 with men and women who already use condoms as well as with men and women who do not currently use them. Market research, conducted by an internationally recognised research company, showed that 88% of existing condom users would be interested in purchasing CSD500 and that 49% of non-condom users would be interested in purchasing the product. The research also showed that 46% of men had experienced some loss of sensitivity when using a condom during sexual intercourse, which can lead to loss of erection. This is one reason why some men avoid condoms, thereby increasing the risks of unwanted pregnancies and contracting or spreading sexually transmitted infections.

MED2002: Treatment for erectile dysfunction

MED2002, our topical gel for the treatment of men with erectile dysfunction, is also licensed to Reckitt Benckiser and shares the same active ingredient as CSD500. MED2002 has the potential to become the world's first non-prescription pharmaceutical treatment for men with erectile dysfunction, a condition that affects, to some degree, as many as 52% of men aged 40 or over¹.

Initial discussions have taken place with regulators with the objective of identifying the most appropriate regulatory pathway for marketing approval. We are now in discussions with our commercial partner regarding progression of development and we look forward to providing further updates.

PET500: Enhanced sexual control

In February we were delighted to announce that Ansell Limited, one of the world's major sexual health companies, had signed an exclusive worldwide agreement to commercialise PET500, our enhanced sexual control product. PET500 is a topical spray that combines our DermaSys® AquaFree delivery system with a well-known mild topical anaesthetic. It is designed to take effect rapidly and to delay male ejaculation.

Under the terms of the agreement with Ansell, Futura will receive a significant royalty rate on sales. The branding of the product is being developed by Ansell, which is also responsible for the product's manufacture. It is expected that the product will be launched in early 2012.

Futura will work closely with Ansell on the successful completion of any clinical work in territories where regulators require additional data. However PET500, as previously announced, was designed to comply with the current USA Food and Drug Administration ("FDA") monograph for male genital desensitisers. The product can therefore be marketed in the USA without any further regulatory approval or clinical data.

Since February we have been working closely with Ansell in preparation for the launch of the product under Ansell's LifeStyles® brand. Initial production is now underway and subject to the necessary export licences being granted in a timely manner the initial launch will take place in a major market in early 2012. Our agreement with Ansell restricts further comment.

Portfolio updates – Pain relief management

TPR100: Topical pain relief

In June 2010, we signed a development agreement for TPR100 with GlaxoSmithKline Consumer Healthcare ("GSK"). Under the terms of the agreement GSK is responsible for all clinical and regulatory development, which it is funding. GSK is also making modest annual payments to Futura whilst development work proceeds.

Development work is progressing well and GSK is now close to finalising the formulation of TPR100, having taken into account manufacturing scale-up so that the product is capable of volume production. In accordance with the development timetable TPR100 will begin its pivotal clinical program in the first half of 2012, which is expected to complete towards the end of 2013. Assuming satisfactory clinical outcomes and regulatory approval both parties expect to enter into a commercial distribution agreement.

TPR100 uses our highly efficient transdermal delivery system, DermaSys®, for the delivery of a non-steroidal anti-inflammatory drug ("NSAID"). As previously announced, clinical tests carried out by Futura have shown that TPR100 achieves between 30 to 40 times higher bioavailability than that achieved by the market-leading product. TPR100's speed of permeation brings potential benefits including the rapid onset of action of pain relief.

TPR100-Rx: Higher strength topical pain relief for prescription based indications

When we conducted the low dose *in vitro* and clinical permeation studies for TPR100 we also studied a significantly higher dose of the same NSAID. These studies gave positive results, showing an excellent dose-related response, which creates the potential to treat more acute indications such as osteoarthritis and rheumatic pain. TPR100-Rx, with its targeted delivery through the skin, has the potential benefit of avoiding the systemic side-effects seen in the use of oral NSAIDs.

TPR100-Rx will be a prescription product and we believe that this represents a substantial market opportunity. It is our intention to seek a commercial partner for this product, initially targeting the North American markets of the USA and Canada. We are in early stage discussions with several potential development partners and will update shareholders when we can.

RAD100: Rapid anaesthetic delivery

RAD100 was conceived in a similar way to TPR100-Rx in that the success of a low dose of topical anaesthetic compound in PET500 prompted us to explore the potential of a higher dose to provide rapid topical anaesthesia prior to injection, vaccination or cannulation. Demand in this market is already well developed, but poorly served, with existing treatments taking at least 30 to 45 minutes to take effect.

In early *in vitro* work, previously reported, we have shown a 250% increase in the rate of permeation of a topical anaesthetic across the skin using RAD100 and the DermaSys® AquaFree delivery system when compared with an established product. This substantial increase in skin permeation is expected to equate to a more rapid onset of skin desensitisation compared with existing products.

Our commercial investigations have led us to believe that for RAD100 to become a financial success and attract an out-licensing partner RAD100 will require a faster speed of onset of skin desensitisation. We do not believe that the current formulation of RAD100 is fully optimised to give this speed of onset. RAD100 is currently being redesigned by our scientists to achieve this milestone which we consider essential for attracting an out-licensing partner. In common with TPR100-Rx, RAD100 would be a prescription product.

Early Stage Product Development

We have a rigorous approach to vetting new products and should stress that our interest is only in evidence-based products where robust clinical data can be generated. Our initial evaluation includes four key criteria: performance, aesthetics, stability and defensible intellectual property. Unless a new opportunity gives a clear indication of meeting these criteria then the product will not be moved forward to the next stage.

We have a number of internally developed product concepts that are going through this evaluation and assuming that we can meet the criteria set out above we will progress development as well as inform shareholders. Since the completion of our fund-raising in March, work has commenced on a number of potential product opportunities. We would expect to update shareholders on at least one product opportunity before the end of the year once our intellectual property position has been protected.

Finance

In March 2011 Futura strengthened its balance sheet through a placing of shares which raised £3.07 million in net proceeds. Our cash and cash equivalents at the period end was £3.4 million (31 December 2010: £1.3 million) and our cash burn remained modest throughout the period under review. We continue to manage our financial resources carefully with costs incurred by the Company remaining steady.

We are pleased to be able to report that in the period under review, we earned milestone payments from Ansell and GSK totalling £120,555 (12 months to 31 December 2010: £125,000). Our retained loss for the six months ended 30 June 2011 was £617,509. Research and development ("R&D") costs of £515,117 were higher than that for the corresponding six month period ended 30 June 2010: £380,836 (year ended 31 December 2010: £760,637) as we are investigating new products to add to the development pipeline. Other administrative costs of £319,928 were slightly lower than that for the corresponding six month period ended 30 June 2010: £354,151 (year ended 31 December 2010: £700,399).

Outlook

The current year has started extremely well. We have signed a commercial deal with Ansell for PET500 and we were delighted to receive notification of the CE mark award to Reckitt Benckiser for CSD500 in early August. We look forward to the launch of the first of these products in early 2012.

Dr W D Potter

Executive Chairman

J H Barder

Chief Executive

Notes

¹ *Massachusetts Male Aging Study (MMAS), J Urol. 1994 Jan; 151 (1): 54-61*

Group Statement of Comprehensive Income



	Notes	Unaudited 6 months ended 30 June 2011 £	Unaudited 6 months ended 30 June 2010 £	Audited year ended 31 December 2010 £
Revenue	1.5	120,555	125,000	125,000
Research and development costs		(515,117)	(380,836)	(760,637)
Administrative costs		(319,928)	(354,151)	(700,399)
Operating loss		(714,490)	(609,987)	(1,336,036)
Finance income		13,363	12,219	19,265
Loss before tax		(701,127)	(597,768)	(1,316,771)
Taxation		83,618	156,149	225,731
Total comprehensive loss for the period attributable to owners of the parent company		(617,509)	(441,619)	(1,091,040)
Loss per share (pence)	3	(0.85p)	(0.65p)	(1.61p)

All amounts relate to continuing activities.

The notes on pages 13 to 21 form part of the Group interim financial information.

Group Statement of Changes in Equity

	Notes	Share capital £	Share premium £	Merger reserve £	Retained losses £	Total equity £
At 1 January 2010 – audited		134,967	15,556,647	1,152,165	(14,990,970)	1,852,809
Total comprehensive loss for the period		–	–	–	(441,619)	(441,619)
Share-based payment		–	–	–	22,085	22,085
At 30 June 2010 – unaudited		134,967	15,556,647	1,152,165	(15,410,504)	1,433,275
Total comprehensive loss for the period		–	–	–	(649,421)	(649,421)
Share-based payment		–	–	–	49,891	49,891
Shares issued during the period	6	320	66,480	–	–	66,800
At 31 December 2010 – audited		135,287	15,623,127	1,152,165	(16,010,034)	900,545
Total comprehensive loss for the period		–	–	–	(617,509)	(617,509)
Share-based payment		–	–	–	49,890	49,890
Shares issued during the period	6	10,034	3,344,612	–	–	3,354,646
Costs of share issues		–	(127,910)	–	–	(127,910)
At 30 June 2011 – unaudited		145,321	18,839,829	1,152,165	(16,577,653)	(3,559,662)

Share premium represents amounts subscribed for share capital in excess of nominal value, less the related costs of share issues.

Merger reserve represents the reserve arising on the acquisition of Futura Medical Developments Ltd on 6 June 2001 via a share for share exchange accounted for as a Group reconstruction using merger accounting under UK GAAP.

Retained losses represent cumulative net losses recognised in the Group Statement of Comprehensive Income. The total comprehensive loss for each period represents the total recognised income and expense for that period.

The notes on pages 13 to 21 form part of the Group interim financial information.

Group Statement of Financial Position



	Notes	Unaudited 30 June 2011 £	Unaudited 30 June 2010 £	Audited 31 December 2010 £
Assets				
Non-current assets				
Plant and equipment		5,937	6,335	8,407
Total non-current assets		5,937	6,335	8,407
Current assets				
Inventories		9,378	9,430	9,378
Trade and other receivables	4	209,208	170,457	64,314
Income tax asset		83,618	76,798	146,380
Cash and cash equivalents	5	3,398,116	1,321,351	824,821
Total current assets		3,700,320	1,578,036	1,044,893
Liabilities				
Current liabilities				
Trade and other payables		(146,595)	(151,096)	(152,755)
Total liabilities		(146,595)	(151,096)	(152,755)
Total net assets		3,559,662	1,433,275	900,545
Capital and reserves attributable to owners of the parent company				
Share capital	6	145,321	134,967	135,287
Share premium	6	18,839,829	15,556,647	15,623,127
Merger reserve		1,152,165	1,152,165	1,152,165
Retained losses		(16,577,653)	(15,410,504)	(16,010,034)
Total equity		3,559,662	1,433,275	900,545

The notes on pages 13 to 21 form part of the Group interim financial information.

Group Statement of Cash Flows

	Unaudited 30 June 2011 £	Unaudited 30 June 2010 £	Audited 31 December 2010 £
Cash flows from operating activities			
Loss before tax	(701,127)	(597,768)	(1,316,771)
Adjustments for:			
Depreciation	2,470	4,402	7,516
Finance income	(13,363)	(12,219)	(19,265)
Share-based payment charge	49,890	22,085	71,976
Cash flows from operating activities before changes in working capital	(662,130)	(583,500)	(1,256,544)
Decrease in inventories	–	1,395	1,447
(Increase)/decrease in trade and other receivables	(145,540)	(23,131)	81,193
(Decrease) in trade and other payables	(6,160)	(73,436)	(71,777)
Cash used in operations	(813,830)	(678,672)	(1,245,681)
Income tax received	146,380	198,640	198,640
Net cash used in operating activities	(667,450)	(480,032)	(1,047,041)
Cash flows from investing activities			
Purchase of plant and equipment	–	(444)	(5,630)
Interest received	14,009	12,654	21,519
Cash generated by investing activities	14,009	12,210	15,889
Cash flows from financing activities			
Issue of ordinary shares	3,354,646	–	66,800
Expenses paid in connection with share issues	(127,910)	–	–
Cash generated by financing activities	3,226,736	–	66,800
Increase/(decrease) in cash and cash equivalents	2,573,295	(467,822)	(964,352)
Cash and cash equivalents at beginning of period	824,821	1,789,173	1,789,173
Cash and cash equivalents at end of period	3,398,116	1,321,351	824,821

The notes on pages 13 to 21 form part of the Group interim financial information.

1. Accounting policies

1.1 Basis of preparation

The unaudited Interim Report was approved by the Board of Directors on 26 September 2011.

The interim financial information for the six months ended 30 June 2011 and for the six months ended 30 June 2010 does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006 and is unaudited.

The Group financial information for the year ended 31 December 2010 which has been extracted from the financial statements of the statutory accounts ("Annual Report") of Futura Medical plc, which were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, does not constitute the full statutory accounts for that period. The Annual Report for 2010 has been filed with the Registrar of Companies. The Independent Auditor's Report on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under sections 498(2) or 498(3) of the Companies Act 2006.

1.2 Going concern

The Group raised £3.20 million (£3.07 million net of expenses) following a private placing of 4,737,402 shares at 67.50 pence per share on 11 March 2011 and had cash balances of £3.40 million at 30 June 2011, with a net cash inflow of £2.57 million in the period.

The Interim Report has been prepared on the going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The financial statements do not reflect any adjustments that would be required if they were to be prepared on a basis other than the going concern basis.

1.3 Accounting developments

The following new standards, amendments to standards or interpretations, effective for the first time from 1 January 2011, have not had a material effect on the Group financial statements:

- 'Annual Improvements to IFRSs 2010'
- IAS 24 (Revised) 'Related Party Disclosures'

The following new standards, amendments to standards or interpretations have been issued but are not effective for the year ended 31 December 2011 and have not been adopted early as the Directors do not expect them to have a material effect on the Group financial statements:

- IFRS 10 'Consolidated Financial Statements'
- IAS 1 (Amended) 'Presentation of Financial Statements'
- IAS 19 (Amended) 'Employee Benefits'

1. Accounting policies (continued)

1.4 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business, so as to obtain benefits from its activities, it is classified as a subsidiary. The Group financial statements present the results of the Company and its sole subsidiary Futura Medical Developments Ltd as if they formed a single entity ("the Group"). Intra-group transactions and balances are eliminated in preparing the Group financial statements.

1.5 Revenue

Revenue comprises the fair value received or receivable for: exclusivity arrangements, consultancy fees, milestone income or royalties, net of value added tax.

The accounting policies for the principal revenue streams of the Group are as follows:

- (i) Exclusivity arrangements and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction.
- (ii) Consultancy fees are recognised as revenue in the accounting period in which the revenue becomes receivable.
- (iii) Non-refundable milestone income is recognised as revenue in the accounting period in which the milestones are achieved. If any milestone income is creditable against royalty payments then it is deferred and released to the Group Statement of Comprehensive Income over the accounting periods in which the royalties would otherwise be receivable.
- (iv) Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.

1.6 Leased assets

Leases, which contain terms whereby the Group does not assume substantially all the risks and rewards incidental to ownership of the leased item are classified as operating leases. Operating lease rentals are charged to the Group Statement of Comprehensive Income on a straight-line basis over the lease term. The Group does not hold any assets under finance leases.

1. Accounting policies (continued)

1.7 Intangible assets

Research and development ("R&D")

Expenditure incurred on the development of internally generated products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to out-license or sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods in which the Group expects to benefit from selling the products developed but not exceeding five years. The amortisation expense is included in R&D costs recognised in the Group Statement of Comprehensive Income. The useful life and the value of the capitalised development cost are assessed for impairment at least annually. The value is written down immediately if impairment has occurred and the unimpaired cost amortised over the reduced useful life. The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to that product receiving marketing authorisation for sale in at least one country.

Development expenditure, not satisfying the above criteria, and expenditure on the research phase of internal projects are included in R&D costs recognised in the Group Statement of Comprehensive Income as incurred.

Patents and trademarks

The costs incurred in establishing patents and trademarks are either expensed or capitalised in accordance with the corresponding treatment of the development expenditure for the product to which they relate.

1.8 Plant and equipment

Plant and equipment is initially recognised at cost, and subsequently at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged to the Group Statement of Comprehensive Income at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over their estimated useful lives.

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted if appropriate at each Group Statement of Financial Position date.

1. Accounting policies (continued)

1.9 Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment on a half-yearly basis and when events or circumstances suggest that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised immediately in the Group Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value, less disposal costs, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in the Group Statement of Comprehensive Income.

1.10 Inventories

Inventories are materials and supplies to be consumed in the course of R&D and are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost includes materials, related contract manufacturing costs and other direct costs. Cost is calculated using the first-in, first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

A provision is recognised immediately in the Group Statement of Comprehensive Income in respect of obsolete, slow-moving or defective items, where appropriate.

1.11 Financial instruments

Financial assets

The Group classifies its financial assets in the category of loans and receivables, they comprise 'trade and other receivables' and 'cash and cash equivalents'. They are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an estimate made for impairment based on a review of all past due amounts at the period end. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. If an impairment loss is required the carrying amount of the trade or other receivable is reduced through the use of an allowance account and the amount of the loss recognised immediately in the Group Statement of Comprehensive Income in administrative costs.

1. Accounting policies (continued)

Cash and cash equivalents are financial assets and comprise cash in hand and sterling fixed rate short-term deposits with original maturities of three months or less which are held by the Group so as to be available to meet short-term cash commitments.

The Group assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset is impaired.

Financial liabilities

The Group's financial liabilities comprise 'trade and other payables' recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

1.12 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Group Statement of Comprehensive Income in the period in which they arise.

1.13 Finance income

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

1.14 Taxation

Income tax is recognised or provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the Group Statement of Financial Position date. R&D tax credits are recognised on an accruals basis and are included as an income tax credit under current assets.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability on the Group Statement of Financial Position date differs from its tax base, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting profit nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the Group Statement of Financial Position date and are expected to apply when the deferred tax liabilities/(assets) are settled/ (recovered). Deferred tax balances are not discounted.

1. Accounting policies (continued)

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, on each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

1.15 Employee benefits

(i) Defined contribution plans

The Group provides retirement benefits to all employees and Executive Directors (except the Chairman) who wish to participate in defined contribution pension schemes. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions made by the Group are charged to the Group Statement of Comprehensive Income in the period in which they become payable.

(ii) Accrued holiday pay

Provision is made at each Group Statement of Financial Position date for holidays accrued but not taken at the salary of the relevant employee at that date. The expected cost of compensated short-term absence (i.e. holidays) is charged to the Group Statement of Comprehensive Income on an accruals basis.

(iii) Share-based payment transactions

The Group operates an equity-settled share-based compensation plan. For all share options awarded to employees, and others providing similar services, the fair value of the share options at the date of grant is charged to the Group Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Group Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of share options that eventually vest. There are no market vesting conditions. If the terms and conditions of share options are modified before they vest, the change in the fair value of the share options, measured immediately before and after the modification, is also charged to the Group Statement of Comprehensive Income over the remaining vesting period.

The proceeds received when share options are exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and the remaining balance to share premium. All employee share option holders enter into an HM Revenue & Customs joint election to transfer the employers' national insurance contribution potential liability to the employee, therefore no asset or liability arises.

(iv) Long-term incentive scheme

The Group operates a long-term incentive scheme for the Executive Directors. The quantum of any awards receivable by the Executive Directors will depend on the Group achieving set milestones and the share price at the time relative to targets set in advance. The Group can exercise discretion in settling any award in equity or in cash.

1. Accounting policies (continued)

1.16 Critical accounting estimates and judgements

Critical accounting estimates, assumptions and judgements are continually evaluated by the Directors based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Judgements

(i) Revenue recognition

The fees invoiced in respect of the TPR100 development agreement have been recognised as revenue on an accruals basis in the Group Statement of Comprehensive Income over the period of the agreement.

(ii) Intangible asset recognition

The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to receiving marketing authorisation for sale in at least one country.

(iii) Deferred tax recognition

The Directors consider that, given the current stage of development of the business, deferred tax assets should not be recognised before the Group is generating significant revenue.

Estimates and assumptions

(iv) Useful lives of plant and equipment

Plant and equipment is amortised or depreciated over its useful life. Useful lives are based on the Directors' estimates of the periods over which the assets will be used in developing revenue generating products and the estimates are reviewed annually for continued appropriateness. The estimated useful lives are between two and five years for computer equipment and between three and ten years for furniture and fittings. Changes to estimates can result in significant variations in the carrying value and amounts charged to the Group Statement of Comprehensive Income in specific periods.

(v) Fair value of financial instruments

The Group determines the fair value of financial instruments using valuation techniques which can be significantly affected by the assumptions used, including interest and discount rates and estimates of future cash flows.

(vi) Inventories

The Group reviews the net realisable value of its inventories on a half-yearly basis to provide assurance that recorded inventories are stated at the lower of cost or net realisable value. Factors that could impact realisable value include: the timing and success of future technological innovations in relation to product R&D, competitor and Government actions, supplier prices and economic trends.

(vii) Share-based payments

The Group operates an equity-settled share-based compensation plan. Employee (and similar) services received and the corresponding increase in equity are measured by reference to the fair value of the equity instruments as at the date of grant.

2. Segment reporting

The Group is organised and operates as one business segment, being the development of pharmaceutical drugs and medical devices and their commercial exploitation. The main area of R&D continues to be in the field of innovative products for the consumer healthcare market with the focus being on sexual healthcare and pain relief management.

The Group manages any overseas R&D from the UK, the primary business segment. Segment revenue is based on the geographical location of the Group's customers which at this stage is solely the UK. Since there is currently only one business segment and one geographical segment, no separate segment reporting has been prepared.

3. Loss per share (pence)

The calculation of the loss per share is based on a loss of £701,127 (six months ended 30 June 2010: loss of £441,619; year ended 31 December 2010: loss of £1,091,040) and on a weighted average number of shares in issue of 72,508,116 (six months ended 30 June 2010: 67,483,311; year ended 31 December 2010: 67,563,969).

The loss attributable to equity holders of the Company for the purpose of calculating the fully diluted loss per share is identical to that used for calculating the basic loss per share. The exercise of share options, or the issue of shares under the long-term incentive scheme, would have the effect of reducing the loss per share and is therefore anti-dilutive under the terms of IAS 33 'Earnings per Share'.

4. Trade and other receivables

	Unaudited	Unaudited	Audited
	30 June	30 June	31 December
	2011	2010	2010
	£	£	£
Amounts receivable within one year:			
Trade receivables	120,555	88,125	–
Other receivables	22,674	5,660	16,829
Prepayments and accrued income	65,979	76,672	47,485
	209,208	170,457	64,314

Trade receivables that are under three months past due are not considered impaired. As of each period end there were no trade receivables past due but not impaired.

The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security and the maximum exposure to credit risk at the Group Statement of Financial Position date is the fair value of each class of receivable.

5. Cash and cash equivalents

	Unaudited	Unaudited	Audited
	30 June	30 June	31 December
	2011	2010	2010
	£	£	£
Cash at bank and in hand	175,793	39,564	51,215
Sterling fixed rate short-term deposits of up to three months maturity	3,222,323	1,281,787	773,606
	3,398,116	1,321,351	824,821

6. Share capital and share premium

The Group raised £3.20 million (£3.07 net of expenses) following a placing of 4,737,402 shares at 67.50 pence per share on 11 March 2011. The funds raised are for general corporate and research and development purposes.

On 25 March 2011 share options over 100,000 new ordinary shares were exercised by a Director. This generated additional funds of £41,750 for the Company.

On 19 May 2011 share options over 80,000 new ordinary shares were exercised by employees (excluding Directors). This generated additional funds of £40,650 for the Company.

On 20 June 2011 share options over 100,000 new ordinary shares were exercised by an employee (excluding Directors). This generated additional funds of £74,500 for the Company.

7. Related party transactions

Related parties, as defined by IAS 24 'Related Party Disclosures', are the wholly owned subsidiary company, Futura Medical Developments Ltd, and the Board. Transactions between the Company and the wholly owned subsidiary company have been eliminated on consolidation and are not disclosed in this note.

Included within prepayments and accrued income at 31 December 2010 was an amount of £247 each in respect of Cycle to Work Scheme loans to J H Barder and D B Davies, Directors of the Company. The loans of £742 each were taken out in April 2010 and were repaid by twelve equal monthly instalments.

W D Potter, a Director of the Company, provides consulting services to the wholly owned subsidiary, Futura Medical Developments Ltd, through Stapleford Scientific Services Limited. Of the total fees and expenses, excluding VAT, invoiced during the period of £42,778 (six months ended 30 June 2010: £43,527; year ended 31 December 2010: £86,317), the amount outstanding at 30 June 2011 including VAT was £8,441 (six months ended 30 June 2010: £8,549; year ended 31 December 2010: £8,186), which has since been settled in cash.

Company Information

Company number

4206001

Directors

Dr W D Potter	Executive Chairman
J H Barder	Chief Executive
D B Davies	Product Development Director
D A Martin	Finance Director
J D Freeman	Non-Executive Director
L Arnold	Non-Executive Director

Audit committee

J D Freeman
L Arnold

Remuneration committee

J D Freeman
L Arnold
Dr W D Potter (adviser to committee)

Nominations committee

J D Freeman
L Arnold
Dr W D Potter (adviser to committee)

Secretary and registered office

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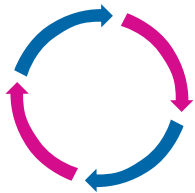
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