



FUTURA

M E D I C A L

INTERIM REPORT

2006

COMPANY PROFILE

Futura Medical plc ("Futura") is a pharmaceutical drug and medical device group. We develop innovative products for sexual health. Our primary focus is on topical products available over-the-counter (without prescription). A summary of our main products under development is set out below.

MEDICAL DEVICES

CSD500 – Condom Safety Device

CSD500 will be a condom to be used by healthy men. It incorporates an erectogenic compound and will help maintain an erection during intercourse in order to reduce condom slippage. It is intended to be sold in the same way as conventional condoms.

FLD500 – Female Lubrication Device

FLD500 will be a "sister" product to CSD500. The active compound on the outside of a condom will come into direct contact with the vagina during sexual intercourse and will help healthy women maintain natural lubrication during intercourse and reduce the risk of condom failure. As with CSD500, it is intended to be sold in the same way as conventional condoms.

PHARMACEUTICAL DRUGS

MED2002 – Male Erectile Dysfunction Treatment

MED2002 will be a "rub-on" gel applied directly to the penis for the treatment of male erectile dysfunction. This is intended to become the world's first pharmaceutical treatment for erectile dysfunction which will be available without the need of a doctor's prescription.

PET500 – Premature Ejaculation

PET500 will be a non-prescription topical treatment for premature ejaculation and will use an established topical anaesthetic. It will assist men who suffer from situational or occasional premature ejaculation for which there is currently no licensed product available within the EU or USA.

FSD500 – Female Sexual Dysfunction

FSD500 will be a non-prescription treatment for female sexual dysfunction. It will incorporate the same active compound as used in MED2002.

DCF100 – Pain Relief

DCF100 will be a topical analgesic formulation of a generic non-steroidal, anti-inflammatory drug to deliver significantly improved local efficacy compared with existing products. It will be aimed at people who suffer from muscular and joint pain caused by sports injuries, arthritis and rheumatism.

DISTRIBUTION AGREEMENTS

Futura has a global distribution agreement with the world's largest branded condom manufacturer and distributor, SSL International plc (makers of the Durex™ condom range) for the lifetime of the patents for both CSD500 and FLD500.

On 3 July 2006, Futura signed a global development agreement for MED2002 with GlaxoSmithKline Consumer Healthcare ("GSK"), a division of the global pharmaceutical and healthcare group GlaxoSmithKline plc.

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Futura Medical plc is a pharmaceutical drug and medical device group. We develop innovative products for sexual health.

Operational Highlights in the year to date

- MED2002: global development agreement with GSK
- CSD500: regulatory approval on track
- FLD500: dossier submission scheduled for 2007
- DCF100: excellent permeation study results

Financial Highlights

- Pre-tax loss of £1.0 million for the six months ended 30 June 2006 (six months ended 30 June 2005: pre-tax loss of £1.0 million - as restated)
- Cash of £1.4 million at 30 June 2006 (30 June 2005: £2.7 million)
- Successful placing raised £3.4 million net in July 2006

INTERIM STATEMENT

The end of the beginning

The first three products upon which Futura was founded are now at an advanced stage of development: the dossier for CSD500 has been submitted to EU regulators; we expect to follow suit with the submission of the FLD500 dossier next year; in July we announced a development agreement for MED2002 with GlaxoSmithKline Consumer Healthcare, a division of GlaxoSmithKline plc ("GSK"), to complete MED2002's clinical development programme.

With this in mind, Futura is currently undergoing a strategic review to determine the best way of leveraging our intellectual property assets, know-how and commercial expertise in order to assure the continued success and growth of the company. Futura has developed a highly efficient and proprietary delivery system for the rapid absorption of active molecules through the skin. By using this system, low doses of certain compounds can be targeted, which brings potential benefits such as localised site of action, rapid speed of onset and reduced side effects. We are assessing its use in a range of compounds.

Our new product evaluation is already showing excellent progress with the recent announcement of impressive skin permeation rates for DCF100, our topical analgesic, and discussions have commenced with potential distributors. We hope to be able to report further new product initiatives to our shareholders during the coming months.

Key Product Development

MED2002

Treatment for Erectile Dysfunction ("ED")

Since the founding of Futura we have received in excess of 60 approaches from different pharmaceutical companies for the distribution and marketing rights for MED2002. We have always had faith in the huge commercial potential of MED2002 and for its becoming the world's first over-the-counter ("OTC") treatment for ED. Only one in five patients with ED seek treatment as all existing ethical medicines require a doctor's prescription. As an OTC treatment, the possibility of buying MED2002 through the pharmacy will be easier and less embarrassing. Accordingly, it has been absolutely critical to us that we secured the best possible distributor capable of successfully addressing the sensitivities associated with the positioning and marketing of MED2002.

We were therefore delighted when in July this year we announced a development agreement with GSK for MED2002. Within the OTC industry, GSK's infrastructure is considered to be the best. This makes them an ideal partner for MED2002.

Under the development agreement GSK will primarily run and manage the ongoing clinical trial programme for MED2002 through to regulatory submission in 2008 and provide global regulatory and technical support. 65% of the costs of the clinical programme will be met by GSK. The main licensing terms between GSK and Futura have also been established. These are currently being incorporated into a global distribution and marketing agreement for which both companies intend to obtain formal Board approval as soon as practicable.

Since signing the development agreement arrangements have been progressing to enable the next clinical study to start before the end of 2006. We expect to be able to update our shareholders later this year on this study along with the likely timetable for the results.

INTERIM STATEMENT

CSD500 – Zanifil™
Condom safety device

In the past few days we have received a detailed response from the relevant Notified Body and Competent Authority (regulators) regarding the regulatory dossier for CSD500's marketing authorisation within the EU.

There are some remaining questions on the chemical and pharmaceutical aspects of the regulatory dossier but these are being addressed as part of the ongoing programme. We expect to be able to provide a full and satisfactory response to these questions in the near future.

The assessment by regulators of the clinical aspects and potential marketing claims is more complex. The regulators have proposed a hearing where these issues can be discussed between all parties to determine the necessary steps to gain regulatory approval.

The regulatory approval of CSD500 will be a major milestone achievement for Futura which will lead to our generating revenues from the first of our three key products.

FLD500
Female lubrication device

Real progress has been made this year in addressing the technical challenges of coating a thin elastomer film containing the active compound onto the outer surface of a Durex™ condom without damaging the integrity of the condom or compromising the stability of the active compound. Following encouraging initial laboratory results SSL conducted pilot scale-up trials in July.

Assuming a successful outcome of these trials we would expect a submission to EU regulators during 2007 for FLD500's marketing authorisation. This will represent Futura's second regulatory filing within two years.

DCF100
A topical formulation of the non-steroidal anti-inflammatory drug ("NSAID") Diclofenac

Several weeks ago we announced impressive results for our novel topical formulation of Diclofenac in human *in vitro* skin permeation studies with permeation rates in excess of eight times higher than the world's current market leader, Voltarol® Emulgel.

Global topical NSAID sales in 2005 were US\$2.35 billion. Notably, this excludes the world's largest pharmaceutical market, the USA, where no topical NSAID has yet received marketing approval from the Food and Drug Administration. This is due to concerns over the inability of existing topical NSAID formulations to deliver sufficient dose through the skin to achieve a therapeutic effect. In contrast, we believe DCF100's potent trans-dermal delivery addresses this issue. With Voltarol® Emulgel achieving global sales of US\$215 million even without sales in the USA, we believe DCF100 represents a significant commercial opportunity.

Plans are now at an advanced stage to conduct Phase I human tissue micro-dialysis and plasma level studies on the final formulation later in the year, with results anticipated for mid-2007. In the meantime, discussions have commenced with potential global distributors for DCF100 and we will update our shareholders on their progress in due course.

The technology upon which DCF100 is based has been developed in-house as a by-product of the challenges we resolved last year in reformulating MED2002. The cost of adapting the technology to create DCF100 has therefore been minimal, although there is valuable intellectual property associated with it. Furthermore, the regulatory hurdles normally faced with new products or indications are considerably less as Diclofenac is already well-characterised and is licensed in oral form throughout the world and in topical form in most regions. A patent was filed in early 2006 for DCF100.

INTERIM STATEMENT

PET500

An OTC treatment for Premature Ejaculation ("PE")

As with DCF100, the technology used in PET500 largely exploits that already developed for MED2002. We remain optimistic that we can develop a consumer-friendly, fast-acting and rapidly-dissipating treatment to enable men to have greater sexual control without compromising their sexual satisfaction. PE is considered the most common form of sexual dysfunction in men.

Perhaps even more than ED, PE has many social and emotional taboos associated with the condition. As a consequence, we believe that it is essential for the positioning and design of PET500 to accurately reflect these issues. For this reason extensive market research is underway in order that we can fully understand the needs of men with PE as well as those of their partners.

We expect to conclude our extensive market research by the end of the year. Assuming satisfactory outcomes, we would expect to commence phase II studies in the first half of 2007. Under the MED2002 agreement GSK hold the right of first refusal for PET500. As with MED2002 we consider it essential for the success of PET500 that we have a strong global distribution partner.

Business Analysis

Our retained loss for the six months ended 30 June 2006 was £923,220. Research and development costs of £588,901 were 15% lower compared with last year's interim results. This reflects decreased clinical research activity on MED2002 pending the GSK development agreement signed in July. Other administrative expenses have risen by only £96,954 over 6 months, with the increase being chiefly divided between legal and negotiation costs culminating in the deal for MED2002 and the expansion of our core team, including a marketing executive. We continue to maintain a tight control on expenditure. Cash at the end of June 2006 was £1.4 million prior to raising a further £3.4 million net of costs in July 2006.

Outlook

We go into the next stage of Futura's development with growing anticipation as we continue to build a company with a range of exciting and commercially attractive products. This anticipation is shared by your Board of Directors, who recently took the opportunity to invest in Futura by ploughing the profits realised from the exercise of their shortly-to-expire options into Futura shares.

Directors' holdings have thereby increased from an aggregate holding of 566,649 to 1,377,890 ordinary shares in Futura, with all Executive Directors now owning shares in Futura as opposed to only half owning shares prior to this recent exercise. In the case of every Director this represents a holding value of at least double their respective Futura annual salary based on the share price at the time of exercise, a meaningful sum that demonstrates the underlying commitment of all of your Executive Directors.

Futura's biggest asset is its staff and its team of consultants. Their contribution was strongly demonstrated this year with DCF100 being developed purely out of their ingenuity and creativity. Again we offer our thanks to them for all their continued efforts and fertile imaginations!

Dr W D Potter, Chairman

J H Barder, Chief Executive

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited 6 months ended 30 June 2006 £	Unaudited 6 months ended 30 June 2005 As restated £	Audited year ended 31 December 2005 As restated £
Turnover		492	–	1,660
Research and development costs		(588,901)	(691,624)	(1,547,872)
Other administrative costs		(481,631)	(384,677)	(801,256)
Administrative expenses		(1,070,532)	(1,076,301)	(2,349,128)
Operating loss		(1,070,040)	(1,076,301)	(2,347,468)
Other interest receivable and similar income		37,592	77,937	133,467
Loss on ordinary activities before taxation		(1,032,448)	(998,364)	(2,214,001)
Tax on loss on ordinary activities	3	109,228	132,530	286,973
Loss on ordinary activities after taxation and retained loss for the period		(923,220)	(865,834)	(1,927,028)
Basic and diluted loss per share (pence)	5	(1.9)	(1.8)	(4.0)

All amounts relate to continuing activities.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Unaudited 6 months ended 30 June 2006 £	Unaudited 6 months ended 30 June 2005 As restated £	Audited year ended 31 December 2005 As restated £
Loss for the period		(923,220)	(865,834)	(1,927,028)
Prior period adjustments				
– Share-based payment	2	(39,462)		
Total gains and losses recognised since last financial statements		(962,682)		

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 June 2006 £	Unaudited 30 June 2005 £	Audited 31 December 2005 £
Fixed Assets				
Tangible assets		24,989	27,914	25,370
		24,989	27,914	25,370
Current Assets				
Stock		31,956	5,320	31,956
Debtors		172,576	398,445	351,079
Cash at bank and in hand		1,448,665	2,661,562	1,808,913
		1,653,197	3,065,327	2,191,948
Creditors: amounts falling due within one year		(242,266)	(200,753)	(237,147)
Net current assets		1,410,931	2,864,574	1,954,801
Total net assets		1,435,920	2,892,488	1,980,171
Capital and reserves				
Called up share capital		99,337	97,357	97,877
Share premium account	6	8,925,420	8,425,707	8,560,987
Other reserves		1,152,165	1,152,165	1,152,165
Profit and loss account	7	(8,741,002)	(6,782,741)	(7,830,858)
Equity shareholders' funds	8	1,435,920	2,892,488	1,980,171

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Unaudited 6 months ended 30 June 2006 £	Unaudited 6 months ended 30 June 2005 As restated £	Audited year ended 31 December 2005 As restated £
Net cash outflow from operating activities	9	(1,046,286)	(1,064,305)	(2,292,863)
Returns on investments and servicing of finance				
Interest received		41,880	64,154	139,306
Net cash inflow from returns on investments and servicing of finance		41,880	64,154	139,306
Corporation Tax				
Research and development tax credit received		282,636	–	167,858
		282,636	-	167,858
Capital expenditure				
Payments to acquire tangible assets		(4,414)	(10,934)	(13,835)
Proceeds on disposal of fixed assets		43	–	–
Net cash outflow from capital expenditure		(4,371)	(10,934)	(13,835)
Net cash outflow before use of liquid resources and financing		(726,141)	(1,011,085)	(1,999,534)
Management of liquid resources				
Decrease in short term deposits	10	394,061	986,301	1,787,913
Financing				
Issue of ordinary shares		365,893	–	135,800
Net cash inflow from financing		365,893	–	135,800
Increase/(decrease) in net cash	10	33,813	(24,784)	(75,821)

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation

The unaudited Interim Report was approved by the Board of Directors on 20 September 2006.

The financial information contained in this Interim Report has been prepared on the basis of the accounting policies set out in the Group's Annual Report for the year ended 31 December 2005 as well as applying the requirements of Financial Reporting Standard 20 (Share-based payment) for the first time.

The financial information for the six months ended 30 June 2006 and for the six months ended 30 June 2005 is unaudited.

The financial information for the Group set out above does not constitute "statutory accounts" within the meaning of Section 240 of the Companies Act 1985. The information for the year ended 31 December 2005 has been extracted from the statutory accounts of Futura Medical plc which have been delivered to the Registrar of Companies. The auditors have reported on those financial statements; their reports were unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

2. Change in accounting policy

The Group has applied the requirements of Financial Reporting Standard 20 (Share-based payment) which it has adopted for the first time with effect from 1 January 2006 as its application is obligatory for accounting periods commencing on or after that date. In accordance with the transitional provisions, Financial Reporting Standard 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2006.

The Group issues equity-settled share-based payments, i.e. share options, to certain Directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant using an appropriate valuation model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed to the profit and loss account on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. At each balance sheet date the cumulative charge in respect of each option plan is adjusted to reflect expected and actual levels of options vesting. Prior to adoption of Financial Reporting Standard 20, equity-settled share-based payments were not expensed to the profit and loss account.

The effect of this is to increase costs for the six months ended 30 June 2006 by £13,076. The prior period comparatives have been restated resulting in an increase in cost for the six months ended 30 June 2005 of £9,807 and for the year ended 31 December 2005 of £22,884. The cumulative effect on opening reserves at 1 January 2005 is a charge of £16,578 and a corresponding credit of £16,578 resulting in £nil net change. This has resulted in an increase in loss per ordinary share for the six months ended 30 June 2006 of 0.03 pence per share (six months ended 30 June 2005: increase of 0.02 pence per share; year ended 31 December 2005: increase of 0.05 pence per share).

3. Taxation

Taxation represents tax credits for certain research and development expenditure based on the expenditure incurred in the relevant period or year. Deferred tax assets have not been recognised on the basis that their future economic benefit is not certain.

4. Dividends

No dividends have been paid and none are proposed.

NOTES TO THE INTERIM FINANCIAL INFORMATION
5. Loss per ordinary share

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of Financial Reporting Standard 14.

The calculation of the loss per ordinary share is based on a loss of £923,220 (six months to 30 June 2005: loss of £865,834 as restated; year to 31 December 2005: loss of £1,927,028 as restated) and on a weighted average of 49,556,032 shares in issue (six months to 30 June 2005: 48,678,601 shares; year to 31 December 2005: 48,686,327 shares).

6. Share premium

	Unaudited 6 months ended 30 June 2006 £	Unaudited 6 months ended 30 June 2005 £	Audited year ended 31 December 2005 £
Opening share premium	8,560,987	8,425,707	8,425,707
Premium on shares issued	364,433	–	135,280
Closing share premium	8,925,420	8,425,707	8,560,987

7. Profit and loss reserve

	Unaudited 6 months ended 30 June 2006 £	Unaudited 6 months ended 30 June 2005 As restated £	Audited year ended 31 December 2005 As restated £
Opening profit and loss reserve as previously stated	(7,830,858)	(5,926,714)	(5,926,714)
Prior period adjustments:			
– Share-based payment (note 2)	(39,462)	(16,578)	(16,578)
– Share-based credit to reserves (note 2)	39,462	16,578	16,578
Opening profit and loss reserve as restated	(7,830,858)	(5,926,714)	(5,926,714)
Retained loss for the period	(923,220)	(865,834)	(1,927,028)
Share-based credit to reserves	13,076	9,807	22,884
Closing profit and loss reserve	(8,741,002)	(6,782,741)	(7,830,858)

NOTES TO THE INTERIM FINANCIAL INFORMATION
8. Reconciliation of movements in shareholders' funds

	Unaudited 6 months ended 30 June 2006 £	Unaudited 6 months ended 30 June 2005 As restated £	Audited year ended 31 December 2005 As restated £
Retained loss for the period	(923,220)	(865,834)	(1,927,028)
Net proceeds from issue of shares	365,893	-	135,800
Share-based credit to reserves	13,076	9,807	22,884
Net decrease in shareholders' funds	(544,251)	(856,027)	(1,768,344)
Opening shareholders' funds as previously stated	1,980,171	3,748,515	3,748,515
Prior year adjustments:			
– Share-based payment (note 2)	(39,462)	(16,578)	(16,578)
– Share-based credit to reserves (note 2)	39,462	16,578	16,578
Opening shareholders' funds as restated	1,980,171	3,748,515	3,748,515
Closing shareholders' funds	1,435,920	2,892,488	1,980,171

9. Reconciliation of operating profit to operating cashflows

	Unaudited 6 months ended 30 June 2006 £	Unaudited 6 months ended 30 June 2005 As restated £	Audited year ended 31 December 2005 As restated £
Operating loss	(1,070,040)	(1,076,301)	(2,347,468)
Depreciation	5,195	7,758	13,203
Share-based payment charge	13,076	9,807	22,884
Profit on sale of fixed assets	(43)	-	-
Decrease/(increase) in stocks	-	9,492	(17,144)
Decrease in debtors	805	6,079	20,408
Increase/(decrease) in creditors	4,721	(21,140)	15,254
Net cash outflow from operating activities	(1,046,286)	(1,064,305)	(2,292,863)

NOTES TO THE INTERIM FINANCIAL INFORMATION

10. Reconciliation of net cash flow to movement in net funds

	Unaudited 6 months ended 30 June 2006 £	Unaudited 6 months ended 30 June 2005 £	Audited year ended 31 December 2005 £
Increase/(decrease) in cash in the period	33,813	(24,784)	(75,821)
Cash outflow from changes in liquid resources	(394,061)	(986,301)	(1,787,913)
Movement in net funds in the period	(360,248)	(1,011,085)	(1,863,734)
Net funds at start of period	1,808,913	3,672,647	3,672,647
Net funds at end of period	1,448,665	2,661,562	1,808,913

11. Post balance sheet events

On 3 July 2006 our subsidiary, Futura Medical Developments Limited, entered into a development agreement with GSK for MED2002. Under the terms of the agreement GSK will primarily run and manage the ongoing clinical trial programme for MED2002 through to regulatory submission in 2008, provide global regulatory and technical support, and pay 65% of the clinical development programme costs which would result in a contribution to those costs of £2.4 million.

On 10 July 2006, Futura completed a private placing of 3,400,000 new ordinary shares at 78 pence per share which raised £2,534,170 net of costs for the company.

On 10 July 2006, the Directors completed the exercise of all of the 2,125,000 options over new ordinary shares held by them which would otherwise have expired on 31 January 2007. This raised £831,250 net of costs for Futura Medical plc and increased the Directors' shareholdings in Futura Medical plc by 811,241 new ordinary shares.

The Directors sold sufficient shares at 78 pence per share to pay a total of £1,001,404 which comprised the purchase price of £831,250 due to Futura for the exercise of options and the tax and national insurance liabilities arising from these transactions of £170,154. No Director received a cash profit after tax from the exercise of options and sale of shares with the exception of David Davies who realised a small cash profit of approximately £30,000 but he retained a total holding of 408,275 ordinary shares. In addition, staff exercised 110,000 options.

Following the above transactions, resulting in the issue of 5,635,000 new ordinary shares, together with 730,000 options exercised by other persons (former Directors and consultants) during the six months ended 30 June 2006, the issued share capital of Futura as at 10 July 2006 had increased to 55,303,601.

The number of options following the above exercises was 1,160,000 prior to a further grant of 350,000 options to employees (not Directors) on 8 July 2006.

COMPANY INFORMATION

Company Number

4206001

Directors

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

Audit Committee

A Slater
J D Freeman

Remuneration Committee

J D Freeman
A Slater
Dr W D Potter (Adviser to
Committee)

Nominations Committee

Dr W D Potter
J D Freeman
A Slater

Secretary and registered office

Anthony L Clayden
Futura Medical plc
Surrey Technology Centre
40 Occam Road
The Surrey Research Park
Guildford
Surrey
GU2 7YG

Auditors

BDO Stoy Hayward LLP
Kings Wharf
20-30 Kings Road
Reading
Berkshire
RG1 3EX

Registrars

Capita Registrars
The Registry
Beckenham
Kent
BR3 4TU

**Nominated advisor and joint
broker**

Canaccord Adams Limited
Brook House
27 Upper Brook Street
London
W1 7QF

Joint Broker

Collins Stewart Limited
9th Floor
88 Wood Street
London
EC2V 7QR

Public Relations Advisers

Buchanan Communications
Limited
45 Moorfields
London
EC2Y 9AE

Principal Solicitors

Memery Crystal
44 Southampton Buildings
London
WC2A 1AP

Patent Attorneys

Withers and Rogers
1 Redcliff Street
Bristol
BS1 6NP

Principal Bankers

Butterfield Private Bank
99 Gresham Street
London
EC2V 7NG

The interim report will be posted to shareholders and copies are available to the public at the Company's registered office or can be downloaded from the Company's website www.futuramedical.co.uk.

Futura Medical plc
Surrey Technology Centre 40 Occam Road The Surrey Research Park Guildford Surrey GU2 7YG
Tel: 01483 685670 Fax: 01483 685671
mail@futuramedical.co.uk www.futuramedical.co.uk