



3 July 2008

Phytopharm plc

Interim Management Statement for 3 months ended 30 June 2008

Phytopharm plc (PYM: London Stock Exchange) (“Phytopharm” or the “Company”) is today issuing its Interim Management Statement (“IMS”) which relates to the three month period from 1 April 2008 to 30 June 2008 and contains information up to the date of publication of this IMS.

Portfolio Highlights

Hoodia extract

- Weight management product continues to make good progress through the various stages of the development programme, in collaboration with Unilever

Phytopica[®]

- Hong Kong launch in June 2008 by Intervet/Schering-Plough Animal Health

Cogane[™]

- On target for Phase IIa clinical trial in Parkinson’s disease patients, with Clinical Trial Authorisation (CTA) submission anticipated late 2008

Myogane[™]

- EU orphan medicinal product status granted by EMEA for amyotrophic lateral sclerosis (ALS)

The Hoodia programme is fully funded by Unilever, Phytopica[®] is revenue generating and the Company is now benefitting from financial support from The Michael J. Fox Foundation to develop Cogane[™] as a treatment for Parkinson’s disease. There have been no other significant changes in the financial position or performance of the Company since the publication of the interim results in respect of the six months ended 31 March 2008. Cash and cash equivalents as at 31 March 2008 were £8.80 million.

Dr Daryl Rees, Chief Executive, commented: “*Hoodia* extract, our weight management product partnered with Unilever continues to progress towards FDA submission which, subject to the programme continuing to advance in line with our current expectations, is anticipated in late 2009. Our canine skin health product, Phytopica[®], partnered with Intervet/Schering-Plough Animal Health has launched in Hong Kong and we look forward to launch in additional territories. Our pharmaceutical products Cogane[™] and Myogane[™] continue to make good progress and Cogane[™] is now benefitting from the strategic financial support of charitable organisations. With a strengthened balance sheet we look forward to reporting on continued progress with the products in our pipeline in H2 2008.”

Notes to Editors

Phytopharm plc

Phytopharm is a pharmaceutical development and functional food company. Our products are developed from medicinal plants, thereby reducing the development risk, cost and time to market. As a virtual company, Phytopharm’s model is centred on a lean cash burn with all laboratory, manufacturing and clinical work out-sourced to specialists, while core competencies such as strategy and management are maintained in-house. Close collaboration with charitable organisations enhances our interaction with worldwide specialists and accelerates our development programmes increasing their value.

Enquiries

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Pharmaceutical Products

The progress of our pharmaceutical products is described below.

Cogane™ is in clinical development as a treatment for **Parkinson's disease**. In pre-clinical models, Cogane™ reverses the changes in the area of the brain involved in Parkinson's disease by inducing the body's own production of proteins known as neurotrophic factors. In particular, one of these factors known as glial derived neurotrophic factor (GDNF) has been shown to be particularly effective in re-growing damaged nerves. Since GDNF is a protein, it cannot be given orally (in tablet or liquid form) because it is degraded in the stomach and intestine, and also does not readily cross the blood-brain barrier. GDNF can work only when injected into or when produced inside the brain. Direct injection of GDNF into the area of the brain involved in Parkinson's disease has shown substantial beneficial effects in small-scale clinical studies but requires highly complex and difficult surgical procedures. Cogane™, which can be taken orally, readily crosses the blood-brain barrier and in pre-clinical models has been shown to stimulate the release of GDNF in the brain and therefore has the potential to overcome many of the difficulties associated with GDNF administration.

In January 2008, The Michael J. Fox Foundation for Parkinson's Research (MJFF) granted funding of \$1.16 million to support the development of Cogane™ as a treatment for Parkinson's disease. The MJFF funding is supporting pre-clinical studies to determine the optimal dosing requirements for Cogane™ and is being carried out by Dr Jonathan Brotchie, a senior scientist at the Toronto Western Hospital and part of the University Health Network (UHN) in Toronto, Canada. Dr Brotchie is a recognised world expert in the field of Parkinson's disease and, at UHN, runs one of the world's premier research laboratories for the identification of novel treatments, diagnostics and cures for Parkinson's disease and related disorders. The estimated market size in 2010 is approximately \$4bn *per annum* for Parkinson's disease (Source: Business Insights).

The neuroprotective, neurorestorative and neurotrophic actions of Cogane™ suggest potential beneficial effects in other neurodegenerative diseases including Alzheimer's disease. In our Phase IIa clinical study of Cogane™ in mild and moderate Alzheimer's disease patients, the more moderate Alzheimer's disease patients showed a decline in cognition in the placebo group with an encouraging trend for slower disease progression in the Cogane™ treated group. Patients with a mild form of the disease showed no decline in cognitive function and therefore, there was no effect detectable with Cogane™. The benefits to the moderate Alzheimer's disease patients, coupled with Cogane's™ good safety profile and tolerability, provides positive data for longer term studies for efficacy determination in both Parkinson's disease and Alzheimer's disease. Dysregulation of neurotrophic factors has been implicated in a number of neuropsychiatric disorders suggesting that Cogane™ may have utility in schizophrenia, depression and anxiety, which together with Alzheimer's disease have an estimated aggregate market size of \$50bn (Source: Business Insights).

Myogane™ is in clinical development as a treatment for **ALS** (also known as Lou Gehrig's disease). ALS is the most prevalent motor neurone disease and results from progressive degeneration of motor neurones which lead to severe muscle weakness and wasting followed by paralysis. Myogane™ induces the body's own production of proteins known as neurotrophic factors. In particular, one of these factors known as brain derived neurotrophic factor (BDNF) has been shown to be particularly effective in re-growing damaged motor neurones. Myogane™ readily crosses the blood-brain barrier and in pre-clinical models has been shown to stimulate the release of BDNF in the brain and protect against neuronal damage and when administered orally to pre-clinical models of ALS, delays the loss of muscle strength and extends survival time.

Myogane™ has successfully completed a Phase Ia clinical study that evaluated the safety, tolerability and pharmacokinetic profile of Myogane™. This residential clinical study was conducted under an investigational new drug (IND) filed with the United States Food and Drug Administration (FDA). In July 2007, Phytopharm successfully completed a Phase Ib study with Myogane™, conducted in the UK under a clinical trial authorisation (CTA) from the Medicines and Healthcare Products Regulatory Agency (MHRA). The study used a new liquid formulation suitable for ALS patients and demonstrated a good safety, tolerability and pharmacokinetic profile following single oral doses escalated across groups of healthy adult subjects.

In May 2008 the European Agency for the Evaluation of Medicinal Products ("EMA") awarded Orphan Medicinal Product Designation for Myogane™, as a treatment for ALS. The Orphan Medicinal Product Designation provides Phytopharm with market exclusivity in the European Union for 10 years following

Myogane's™ market authorisation. The EMEA grants the Orphan Medicinal Product Designation for products that diagnose, prevent or treat life-threatening or very serious conditions affecting no more than five out of every 10,000 people in the European Union. Approximately 350,000 patients suffer from ALS worldwide, of which 50% die within 18 months of diagnosis. This condition has a high unmet medical need (source: Datamonitor). Myogane™ has previously been granted Orphan Drug status and Fast Track Designation for the treatment of ALS by the United States Food and Drug Administration (FDA).

The neuroprotective, neurorestorative and neurotrophic actions of Myogane™ suggest potential beneficial effects in other orphan neurodegenerative diseases including Huntington's disease, Friedrich's ataxia, progressive supranuclear palsy and multiple system atrophy. The aggregate market size for these orphan diseases, including ALS, is estimated at in excess of \$1b (Source: Datamonitor).

Functional Foods

Hoodia extract is in development as a **weight management** functional food product based on an extract of the succulent plant, *Hoodia*, which contains a novel satiety stimulator that reduces calorie intake in overweight subjects, as demonstrated in a double-blind, placebo-controlled clinical study. Extracts of *Hoodia* and the active molecules therein are the subject of a global patenting programme, with major patents granted in the US, UK, Europe and Japan and pending in all other major territories.

Over the period, we have continued to make good progress with *Hoodia* extract through the various stages of the development programme with our partner Unilever. We anticipate submitting GRAS notification to FDA in late 2009, subject to the programme continuing to advance in line with our current expectations. The development stages prior to submission for GRAS notification include supply chain expansion and consumer studies that will evaluate reductions in calorie intake as part of a weight management programme in the general population. As part of the agreement, Unilever is committed to fully funding the development programme. In addition, Phytopharm will receive an undisclosed royalty on sales of all products containing the extract. Separately, Unilever is also managing the agronomy programme, including scale up for launch, undertaking manufacturing and market research activities, and supporting the international patent programme for the products.

Phytopica® is a natural, three plant product for **canine skin health** that provides a novel 3 in 1 approach to help maintain a normal healthy immune system, support normal white cell function and provide anti-oxidant benefits. The beneficial effects and excellent safety profile of Phytopica® have been proven extensively in clinical trials and the product has been found to be suitable for all dogs whatever size or breed. Canine dermatological disorders are well recognised by veterinarians to be a major problem, with an estimated 15% of the UK dog population (around 900,000 dogs) affected by skin conditions. Maintenance of a healthy skin and coat and alleviation of itching are of major importance to canine general health and quality of life.

In January 2006, Phytopharm entered into an exclusive global agreement with Schering-Plough Animal Health for the Company's canine skin health product, Phytopica®. Under the terms of the agreement, Phytopharm is responsible for manufacturing Phytopica® whilst Schering-Plough Animal Health is responsible for the global sales, marketing and distribution of Phytopica®. In April 2006, Schering-Plough Animal Health launched Phytopica® in the UK followed by launches in Italy and France in March and April 2007. The product has enjoyed firm support from veterinary dermatologists and recorded strong sales growth. In November 2007, Schering-Plough completed the acquisition of Organon BioSciences N.V which included the animal health business, Intervet. The enlarged animal health business is now operating as Intervet/Schering-Plough Animal Health. Following the Hong Kong launch in June 2008, Intervet/Schering-Plough Animal Health will seek to market and distribute Phytopica® in further countries.

The UK canine dermatitis end-user market is approximately £5 million per annum (Source: GfK AH UK Ltd). The UK comprises 6.4 per cent. of the global Companion Animal Health market (Source: Animal Pharm).

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results.

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 progress of the development programmes therefore represents the best indicator of the Group's performance and a review of the programmes is given above.

Financial risk

The Group has one product, Phytopica®, on the market. However the revenues currently being generated by this programme are not yet significant to offset the Company's research and development expenditure, and the Group expects to continue to make losses until it is able to increase its revenues sufficiently. This may require commercialisation of additional products. Until this can be achieved the Group may remain dependant on the continuing support of its investors.

Clinical and regulatory risk

Successful commercialisation of the Group's products is likely to depend on continuing successful progress through clinical and consumer studies, and registration as applicable. 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 results 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 will 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.

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.

Economic risk

As a consequence of the international nature of its business, the Group is exposed to risks associated with changes in foreign currency rates. The Group is headquartered in the United Kingdom, and substantially all its cash resources are in pounds sterling. An adverse change in exchange rates may lead to either an increase in certain of the Group's costs or a decrease in the pounds sterling value of its revenues, and hence a significant impact on the Group's reported results of operations, financial position and cash flow. Phytopharm has no debt and therefore does not face any refinancing issues even in the current adverse credit environment.

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 of 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 of operations may be adversely impacted.

Forward-looking statements

Certain information included in this statement 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 upon 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.

For further information about Phytopharm please see our website at <http://www.phytopharm.com>