

Press Release

ProStrakan Group plc

Preliminary Results for the Year Ended 31 December 2005

23 March 2006: ProStrakan Group plc, the European specialty pharmaceutical company, today announces its preliminary results for the year ended 31 December 2005.

Operating Highlights

- Successful IPO in June, raising £40 million
- Rectogesic™ (for anal fissures) launched in UK
- Re-negotiation of Rectogesic™ EU licensing and distribution agreement
- EU MRP for Rectogesic™ successfully concluded (see separate press release)
- Tostrex™ (for testosterone deficiency) launched in Sweden
- EU MRP for Tostrex™ commenced
- Acquisition of the EU rights to Rapinyl™ (for cancer breakthrough pain)
- Acquisition of APS Pharma in Germany
- Salesforce growth in UK, France, Germany and Scandinavia
- Start of a Phase III study for our lead pipeline drug candidate, Sancuso™
- In-licensing of Tabphyn® (for benign prostatic hyperplasia) announced today (See separate press release)

Financial Highlights

- Revenues up 47% to £31.6 m
 - Sales of lead product, Adcal D3™ (for osteoporosis), up 47% to £10.1m (2004: £6.8m)
- Gross profit rises 69% to £16.7m
- Retained loss of £33.8m; IFRS basic loss per share of 21.5p
- Net cash at period end of £38.7m

Commenting on the results, Dr Wilson Totten, Chief Executive of ProStrakan, said:

“During an active and successful 2005, ProStrakan achieved substantial growth in revenues from its marketed products, expanded its commercial operations through organic and M&A activity and advanced the leading projects in its R&D pipeline. These remain our priorities in the year ahead as we implement our strategy to build value for shareholders and move the business towards profitability.”

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ProStrakan

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Financial Dynamics

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A presentation and conference call for analysts will be held today at 9.30am at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. Please call Mo Noonan for further details on 020 7269 7116.

ProStrakan Preliminary Results

23 March 2006

Introduction

In 2005, ProStrakan achieved substantial growth, delivering on promises to grow turnover, expand our commercial operations through organic and M&A activity and advance the leading projects in our R&D pipeline. Total revenues from product sales rose by 47% to £31.6 million, continuing a five year trend which marks us out as one of the fastest growing healthcare companies in Europe.

Our future growth trajectory is mapped out through a strategy which has clearly identified approaches to building value in the short, mid and long term. Our business model, exemplified by the successes of Adcal D3™ and Isotard XL™, adds real value to the company's current range of in-market products by significantly increasing sales and using the revenue generated to invest in even higher value products for the mid-term, both through in-licensing and through our own R&D pipeline. In turn, this drives longer term growth and expansion through future, high value licensing and R&D activity. The recent acquisitions of pan-EU products such as Tostrex™, Rectogesic™ and Rapinyl™ – and the 2005 market launches of the first two – clearly demonstrate the model in practice. In March 2006, we significantly expanded our range of UK marketed products with the acquisition of Tabphyn, a near term source of further revenue and cash generation. We are gaining momentum, consistently delivering against our targets for accelerated growth in the near, mid and long term.

ProStrakan's concept of 'active management', whereby people at all levels of the business are challenged proactively to seek out prospects for further growth as well as vigorously exploiting current opportunities, underpins the success of our business model. Increasingly, as a result, we are gaining a reputation as EU marketing partner of choice.

Key milestones in 2005

Our aim is to continue our growth in the years ahead, in the process creating a significant, self-sustaining, international specialty pharmaceutical company. In pursuit of that aim, key milestones achieved in 2005 included:

- Successful IPO in June, raising £40 million;
- Rectogesic™ launched in UK;
- Re-negotiation of Rectogesic™ EU licensing and distribution agreement;
- EU MRP for Rectogesic™ successfully concluded;
- Tostrex™ launched in Sweden;
- EU MRP for Tostrex™ commenced;
- In-licensing of the EU rights to Rapinyl™;
- Acquisition of APS Pharma in Germany;
- Salesforce growth in UK, France, Germany and Scandinavia;
- Start of a Phase III study for our lead pipeline drug candidate, Sancuso™.

Strategy: adding value through growth

At the core of our strategy is the continued growth of revenues. In the near to mid-term, we will continue to build a targeted sales and marketing infrastructure across Europe, growing our current portfolio of branded products and progressively launching further high potential, high value, pan-European specialist care products.

To expand our established presence in the oncology supportive care arena, we in-licensed the EU rights to Rapinyl™, a breakthrough cancer pain therapy. This is central to our strategy of leveraging the effectiveness of our existing European sales network by supplying it with attractive, new, IP-protected products in relevant specialist therapeutic areas.

In the mid-term, this strategy will deliver value to the business by driving us into profitability. We continue to invest in the selective development of our pipeline projects, such as Sancuso™, and in parallel will continue targeted product in-licensing, both of which will drive additional sales growth in future years. Driven by the global rights within our pipeline, in the mid-term we will also seek to establish a commercial presence in the United States.

To manage our cost base and retain future revenue streams, we will continue our policy of out-licensing non-core products or projects. Longer term, as further in-licensing activity and continued commercial growth in Europe and North America permit, we can look forward to carrying out higher value research and development work on our own proprietary pipeline, the results further feeding the sales network and boosting sustained profitability.

A key priority is always to add value to each strategic move we make. In addition, the timing of our licensing and M&A activities is carefully judged. It makes sense to in-license near-to-market products such as Rectogesic™, Rapinyl™ and Tostrex™ whilst at the same time expanding our European sales capabilities. This creates substantial opportunities for efficient growth in addition to our existing pipeline of products.

Commercial

During the year, we successfully broadened our commercial presence across the EU by acquiring APS Pharma GmbH in Germany and substantially adding to our salesforces in the UK, France and Scandinavia. The launches of Rectogesic™ in the UK in June, and Tostrex™ in Sweden in September, and the subsequent start of EU Mutual Recognition Procedures (MRP) mean that we are on track to deliver additional attractive, high potential products to our EU salesforces.

Securing growing revenues from an expanding product portfolio remains key. Across our marketed products portfolio, good progress has been maintained in the period under review, the performance of our principal products all demonstrating significant progress. Of particular note was the success of the UK salesforce in establishing Adcal D3™ as the market leader in the highly competitive calcium/vitamin D supplement market, both in terms of volume and cash sales.

Research & Development

In Research and Development, ProStrakan continues to invest for long-term growth and to provide significant upside potential. We have a broad pipeline of projects, offering the prospect of sizeable commercial opportunities in the future. Particularly exciting is the progress made with our lead project, the anti-emetic Sancuso™, which advanced into Phase III trials at the end of the year. A novel, transdermal granisetron patch for chemotherapy-induced nausea and vomiting (CINV), I believe this product candidate has the potential to be the first such product to market, offering ProStrakan, with our worldwide rights to the product, the possibility of significant commercial advantage.

IPO & future

The prevailing sentiments of the market at the time of the IPO meant that the Group was valued more for its demonstrable near-term commercial success. We remain convinced that long-term growth and sustainability will be achieved through commercialisation of the valuable and important projects emerging from our pipeline, supplemented by our continuing focus on licensing and M&A.

Future value creation will come from controlled expansion of the European commercial operation and maximising its contribution to the business by ensuring it has an attractive range of high value products at its disposal. Value will also come, of course, from moving our internal R&D pipeline forward including taking Sancuso™ forward towards a market launch as soon as possible, a move which may also coincide with the fulfilment of our ambitions to establish a commercial presence in the US.

I am confident we have the right strategy in place and the means to achieve our goals year by year. Led by a talented and experienced management team, we have an outstanding group of people in place in all our locations to whom go my thanks for their tireless dedication and expertise.

Dr Wilson Totten
CEO

Operating Review

Investing in the business

During the course of 2004, the Group had concluded six significant M&A and in-licensing deals, expanding the commercial business into Europe and introducing the prospect of pan-European products to add to its portfolio of marketed goods. In 2005 and into 2006, we have continued to build on this record with three further deals as well as investment across the range of our key value drivers and a concerted effort to add value to the acquisitions we have made.

Commercial

The Group currently markets 17 principal products in 13 European markets and has 5 products in registration. A network of highly experienced Country General Managers leads a specialty sales infrastructure of about 180 people, mainly located in the UK, Germany, France and Spain. In addition, the Group has a limited commercial presence in Sweden, Belgium, the Netherlands and Greece and sells to certain other countries, such as Italy, on an export basis. The UK salesforce principally targets high-prescribing general practitioners and specialists, while in the rest of Europe our sales and marketing activities are mainly aimed at specialist physicians. It is a salesforce well placed and ready to handle further pan-European product launches and we intend to expand it further in 2006, in addition to exploring opportunities to expand our operations into Italy.

The 47% increase in revenues in 2005 over the previous year reflects an impressive performance across the range of our marketed product portfolio. The increase in sales of our currently-marketed products was 21%, representing significant organic growth, with the balance of growth coming from products or companies acquired since the beginning of the comparative period. I believe there is significant growth potential arising from both our existing and recently in-licensed products.

Adcal D3™

Adcal D3™, the Group's current top selling medicine, is a branded calcium and vitamin D3 oral supplement, used as an adjunct to specific therapy for the treatment of osteoporosis. The Group licensed the UK rights to the product in 1997, both sales and market share growing strongly ever since its launch in 1999. With sales of £10.1 million in the year under review, Adcal D3™ grew by 47% over 2004 and has now overtaken its main competitors to become the single product UK leader in its market segment, both in cash and volume terms. The current run rate of sales is some 25 fold larger than 5 years ago. This is testimony not only to the strategic vision we have always had for the product, but to the skills of our UK salesforce. Adcal D3™'s annual revenue is now greater than the entire calcium/vitamin D3 supplement market of ten years ago. It is a product which has done much to drive the growth and success of our UK sales operation.

Rectogesic™

Rectogesic™, a 0.4% topical nitroglycerin ointment indicated for the treatment of pain associated with chronic anal fissures, was launched on to the UK market in May and delighted us with its very rapid sales uptake, both in terms of initial and repeat prescriptions and adoption on to hospital formularies. The only prescription medicine licensed specifically for the relief of this condition, sales since its launch in June 2005 of £0.6 million were ahead of forecast, supported by a powerful and award-winning, direct-to-physician advertising campaign.

The Group initially acquired certain EU commercialisation rights to Rectogesic™ from Cellegy Pharmaceuticals in December 2004. In November 2005, the Group acquired additional rights to manufacture the product, significantly improving our gross margin. Following successful conclusion of the EU Mutual Recognition Procedure in March 2006, we will now apply for local marketing authorisations. We expect to launch the product in certain other European territories by the first half of 2007. Rectogesic™ works by relaxing the vascular smooth muscle around the anal canal leading to the dilation of peripheral arteries and veins, aiding the healing of the fissure. This offers

patients a simple and effective way of managing the discomfort while healing is awaited, which in turn may help avoid painful and expensive surgery. It is estimated that up to 800,000 individuals suffer from anal fissures in the EU.

Rectogesic™ can be seen as the first of a new breed of prescription medicines for ProStrakan – drugs for which we have in-licensed the pan-European rights, offering us the economic benefits of providing our growing salesforces with an attractive, high value addition to their portfolio and the prospect of significant returns in the near future. It is an excellent example of our business model in practice.

Tostrex™

Tostrex™ is a 2% testosterone gel product indicated for the treatment of male hypogonadism, the European rights to which we in-licensed from Cellegy in July 2004. In January 2006, the Group acquired additional rights to manufacture the product. Having received its Swedish marketing authorisation in January 2005, we launched the product in that country in the following September. Although Sweden is a small market in terms of size and a product of this type takes some time to escalate sales, there is an early demonstration of the product's potential to be a significant near-term revenue driver for the business. As with Rectogesic™, we have initiated the EU Mutual Recognition Procedure and, subject to receiving further marketing authorisations, we hope to launch Tostrex™ in other European countries during the course of 2007, further leveraging our expanding salesforce infrastructure.

The European androgen deficiency market is still relatively underdeveloped. Partial Androgen Deficiency in the Ageing Male (PADAM) prevalence is known to increase with age, some estimates suggesting one in five men under 49 years of age suffer from the condition, rising steeply to 91% in men over 80 (1). As the population grows and demographics shift towards an ageing population, a higher proportion of the population is forecast to be affected by hypogonadism. Given the association between low testosterone and type 2 diabetes and cardiovascular disease, and the fact that growth in the circa \$500 million testosterone replacement market in the USA has predominantly arisen from the growth in sales of gels, Tostrex™ represents an exceptionally attractive opportunity for significant revenue growth in the near-term.

[1: Harman SM, Metter EJ, Tobin JD et al. Longitudinal effects of ageing on serum total and free testosterone levels in healthy men. *J Clin Endocrinol Metab*; 86(2): 724-731.)

In January this year, we commenced a Phase IIIb/IV study (known as TIMES2) into the effects of Tostrex™ gel in hypogonadal men with decreased insulin sensitivity. Studies have shown that testosterone replacement may improve insulin sensitivity, thereby possibly improving treatment of diseases associated with the condition such as diabetes, metabolic syndrome and coronary artery disease. This study offers us the potential to add value to an important product by exploring opportunities for it in additional therapeutic indications.

Isotard XL™

Sales of our UK-only branded cardiovascular oral drug for the treatment of angina declined by 3% to £4.2 million, reflecting the price sensitivity of this market segment. In volume terms, units sold increased by 16%, continuing a strong volume growth trend which has been evident since we in-licensed the product in 2001. In response to the new 2005 Pharmaceutical Price Regulation Scheme launched in the UK in January which, amongst other things, required a price cut of 7% across the range of companies' UK prescription medicines, we reduced the price of Isotard XL™ by more than the minimum in order to compensate for smaller price cuts on other products.

Tebetane™

Our branded oral treatment for mild benign prostatic hyperplasia (BPH) recorded sales of £3.2 million for the year, some 1% lower than the in-market figure for 2004. The product was added to ProStrakan's range of marketed products through the November 2004 acquisition of Madrid-based Elfar SA. It is currently marketed only in Spain where it is the Group's largest product by sales.

Droperidol

Droperidol is a branded injectable drug indicated for the treatment of post-operative nausea and vomiting (PONV) in hospitals. The main EU market for this product is France but ProStrakan also supplies it to certain other European countries. In-market sales in 2005 increased by 17% to £3.3 million. In the course of 2006, we will seek expanded EU approvals for Droperidol to enable more widespread direct marketing.

Sandoglobuline

A treatment for immunodeficiency, this product had been marketed by our French commercial subsidiary (acquired by ProStrakan in January 2004) under a distribution agreement with a third party which expired, in accordance with its terms, at the end of June. Consequently, no further sales have been or will be recorded by the Group since that time in relation to this product. For the first six months of 2005, however, Sandoglobuline made a contribution of £3.7 million to Company turnover.

Other products

ProStrakan sells a number of other mainly country-specific products throughout many of the major markets in Europe. These have been added to our portfolio of marketed products through our acquisition of certain companies since the beginning of 2004. Taken together, they achieved sales of £6.0 million in 2005.

Growth opportunities

ProStrakan's international commercial operations form one of the two central pillars of the business. The contribution from sales and out-licensing goes directly towards the funding of the second – research & development – from which further important and strategic commercial opportunities will arise in future. In addition to organic growth, however, we continuously assess other product in-licensing and acquisition opportunities for the value they may add to the Company. We have the necessary business development infrastructure to act swiftly if a potential transaction offers additional revenue generation or if we are able to take a clinical project further along the development pipeline. The December 2005 in-licensing of the European rights to

Rapinyl™ is good example. And in March 2006, beyond the year under review, we began the commercialisation of Tabphyn™, having acquired the UK marketing rights from Genus Pharmaceuticals earlier in the month. Tabphyn™ is a branded generic tamsulosin therapy for the treatment of benign prostatic hyperplasia. Its acquisition exemplifies ProStrakan's business model.

Research & Development

One of the differentiating features of our business model is that we have world class R&D capabilities in areas of our therapeutic focus. We are not, therefore, solely reliant on in-licensing for future step-change growth, but can look forward to realising value from our pipeline of product candidates. Currently, we have about 100 people with an optimal mix of global R&D expertise covering skeletal disease, ageing male and female health and oncology supportive care.

The Group's clinical development projects offer the prospect of aggregate potential peak sales that are materially higher than the Group's currently marketed products and benefit from substantial intellectual property protection and worldwide commercialisation rights. In order to manage the overall risk profile of the Group, these product candidates typically utilise novel delivery systems, reformulations or alternative therapeutic indications of known active pharmaceutical ingredients, thereby reducing the risk of failure to complete the development of such product candidates.

Rectogesic™

Following the first successful approval for Rectogesic™, the MRP was initiated in order to seek licences across the EU. The MRP was successfully concluded in March 2006 and receipt of further EU marketing authorisations is expected later in the current year.

Tostrex™

Following its first approval in Sweden, the EU MRP for Tostrex™ has been initiated.

Siklos™

In October 2005, an application was made to the EMEA, the European medicines agency, seeking approval to market Siklos, our hydroxyurea product, for the prevention of vaso-occlusive crises of sickle-cell disease. If approved, the product could be available for marketing in late 2006 or early 2007. Siklos has orphan designation.

Rapinyl™

The in-licensing in December 2005 of the European rights to Rapinyl™ from Orexo Pharma AB represented a major step towards the achievement of our goals. Currently in late stage clinical development, Rapinyl™ is a fast melt tablet formulation of fentanyl, a long established opioid drug for the management of the sudden surges of pain (referred to as breakthrough pain) often experienced by patients suffering from cancer. It builds, therefore, on our already established oncology supportive care sales franchise in Europe, an expertise we hope to extend yet further in due course with Sancuso™, our novel anti-emetic patch product (see below). Estimates put the number of people with cancer in Europe at over 5 million. Of these, some 30% suffer

pain as a result, of whom 65% suffer breakthrough pain. It is a very significant market but one which is currently underserved. We are confident that Rapinyl™, with its user-friendly fast-dissolving, fast-acting, sub-lingual formulation and IP protection, offers an important long-term commercial opportunity for the Group.

We are in discussion with EU Regulatory Agencies with the intention of submitting Rapinyl™ for marketing approval before the end of the current year.

Droperidol

A regulatory application is expected to be made this year seeking to obtain licences for Droperidol in key countries where the product is not currently licensed.

Sancuso™

Our lead clinical development programme is Sancuso™, a novel transdermal patch formulation of granisetron to treat chemotherapy-induced nausea and vomiting (CINV). Many patients undergoing chemotherapy experience acute emesis either immediately after chemotherapy or for up to five days thereafter. Some patients even suffer in the period leading up to chemotherapy in anticipation of what is to come. 5-HT₃ receptor antagonists are used extensively to treat this distressing side-effect.

ProStrakan's transdermal patch delivers granisetron, an established 5-HT₃ receptor antagonist, steadily into the bloodstream without the need for injection or having to swallow pills. Encouraging data emerged from the Phase II proof-of-concept study in May and has supported the commencement of a Phase III study. This study is being conducted under an Investigational New Drug (IND) application, approved in February 2006, in the US and in ten other countries worldwide.

The current global market size for 5-HT₃ receptor antagonist anti-emetics is estimated at over €2.8 billion per annum (source: IMS Health). We are on course with the development of this strategically important project, one that has the potential to add significant value to ProStrakan.

Topical Nitric Oxide

This product candidate is intended for use as a topical treatment for onychomycosis, a chronic fungal condition of the nail and nail bed. Currently available treatments for the condition include oral and topical therapies. The leading oral therapies carry the risk of unwanted side-effects. Existing topical therapies can have limited efficacy, chiefly due to the difficulty in getting the therapeutically active drug through the nail to the source of the fungus beneath. Thanks to its anti-microbial effect, ProStrakan's topical nitric oxide (TNO) technology gets around this problem by releasing nitric oxide at the time of topical application and through its subsequent interaction with the nail. In late 2004, the Company completed a Phase IIa clinical trial which indicated that TNO is effective in inhibiting fungal growth. We are conducting further development work and are in discussion with potential out-licensing parties for this drug.

The market for prescription onychomycosis therapies has grown in recent years with some estimates putting it at around £820 million per annum in 2004. Oral treatments dominate but we believe there is an unmet need for a topical product offering greater efficacy than existing topical treatments together with a good safety and tolerability profile.

Testosterone-glucoside

Testosterone-glucoside is a patented molecule being developed as an oral testosterone replacement therapy for hypogonadal men. The target is to deliver testosterone without high systemic exposure or associated safety concerns when compared to other oral delivery systems. Currently in Phase I, this project could present significant commercial opportunities for a safe, effective and convenient oral testosterone replacement therapy.

Oestradiol-glucoside

Intended for use as an oral therapy in the treatment of symptoms of the female menopause, oestradiol-glucoside offers the possibility of achieving therapeutic levels of oestradiol with lower overall systemic exposure. The hormone replacement therapy (HRT) market has been depressed since the 2002 publication of the Women's Health Initiative study in the US, though there are signs of some recovery and it will remain a very significant worldwide market. Not containing progesterone, as the subject therapy of the study did, we believe that oral oestrogen-only therapies will continue to account for a significant proportion of the market. The product has completed a Phase IIa clinical trial in the US which showed that this product could be clinically effective in the management of post-menopausal symptoms in women. We continue to review how best to secure value from this project.

Topical anti-androgen

Our topical, non-steroidal, anti-androgen formulation for the treatment of alopecia, including male pattern baldness, completed a Phase IIa study in 2005. Existing therapies include topical and oral products which can have limited efficacy. The global market for alopecia products is significant and is expected to grow with the general ageing of the population. We consider that there is a commercial opportunity for a new and effective topical product and will continue to seek a cost-effective means of exploring this opportunity further.

Trimegestone patch

This product candidate is a transdermal patch formulation either consisting of trimegestone (a progestin) and oestradiol intended for use in HRT or trimegestone alone, or with a suitable oestrogen, intended for use as a contraceptive. Transdermal administration of oestradiol is known to be safer than oral and our patch is intended to deliver the active drug into systemic circulation using lower doses of oestrogen. We believe that a trimegestone patch product that is safe, effective and well tolerated offers the prospect of potentially significant commercial opportunities. A Phase II proof-of-concept clinical trial has been conducted for the patch in the treatment of HRT. Given overall market conditions, the timing and manner of any further development work on this product for use in HRT are being reviewed. In September, we announced an agreement with Duramed Pharmaceuticals Inc, a subsidiary of Barr

Pharmaceuticals Inc, for the marketing of the patch for contraception in the USA and Canada. Under the terms of this agreement, Duramed will fund the next stage of clinical development, possibly leading to a formal development and commercialisation licence for North America.

Discovery

ProStrakan has modern R&D facilities situated near Paris where the Group carries out pre-clinical research into discovering new compounds with potential therapeutic effect in the fields of bone biology and medicinal and steroid chemistry, particularly for the ageing female and male. Pre-clinical projects and discovery programmes have identified novel chemical classes for the prevention and treatment of osteoporosis, bone metastases, hyperparathyroidism as well as bone formation or bone anti-resorptive agents. Many of these programmes are leading the way in their fields with novel approaches to treating disease. This has led to an encouraging level of interest from potential partners and we continue to pursue a number of discussions on the most efficient way to progress them. Notwithstanding the level of this interest and the significant potential of individual projects and programmes, it is the view of the Directors that no significant value has been attributed by external investors to this activity and the carrying value of this activity reflects this. During 2005 we tailored the structure and head-count levels in Discovery to best suit our future needs in this activity.

R&D conclusion

Our strategy is to build value into our R&D pipeline whilst carefully managing R&D spend as we progress towards profitability. The pipeline is regularly reviewed to identify potential for partnering and cost-sharing so as to maximise the upside potential of the projects in the clinic whilst minimising their impact on profitability.

Board

As from the Company's Annual General Meeting on 10th May 2006, Executive Chairman Harry Stratford will be moving to a Non-executive Chairman role.

Outlook

We continue to focus on building our commercial business, rapidly executing licensing and M&A activity and prudently investing in our own R&D. Looking to the year ahead, these remain our priorities. On the commercial front, we will pursue further regulatory approvals for TostrexTM, Droperidol, RapinylTM and Siklos - and, following its recent MRP completion, we will receive additional EU marketing authorisations for RectogesicTM - in preparation for European launches through 2007. In R&D, the priority is to complete the SancusoTM Phase III study. Success in these areas in 2006 will see ProStrakan optimally positioned for further rapid growth in 2007 and beyond. We are, therefore, confident in our ability to implement our stated strategy in the coming years in order to build value for our shareholders.

Financial Review

Results of operations

This year is the first year of adoption of IFRS under which the results of the company are reported. As set out more fully in the notes to these results, this adoption has required a number of changes from the previous presentation under UK GAAP. Certain aspects are also different from the treatment proposed within the interim results for the six months ended 30 June 2005 as it was indicated at that time that information presented and accounting policies used may be subject to change before their inclusion in these financial statements. Since the interim results statement, the Group has refined its IFRS policies as the practical application of IFRS has become clearer and generally accepted practice has emerged.

The income statement, statement of changes in equity, cash flow statement and related notes for the year ended 31 December 2005 and the balance sheet at that date, are subject to completion of the audit and may also change should a significant adjusting event occur before the approval of the Annual Report 2005 expected to be on 5th April 2006.

Figures in brackets refer to the results for the comparative year of 2004 on a like-for-like IFRS basis.

Revenue

Revenue for the year was £31.6 million (£21.6 million), an increase of 47%. Of this total, £31.1 million (£21.3 million) related to sales of pharmaceutical products with the balance representing royalty, licensing or other income. The sales of our key products, with associated growth over the previous year, are set out in the table below. The Company markets a range of products. The sales of the 5 largest selling products, at £24.5 million (£19.3 million), represented 79% (91%) of total revenues from product sales.

The product with the largest sales in the year was Adcal D3TM. The market in the UK for Calcium and Vitamin D3 oral supplements grew by 10.5% in cash terms (23.6% in volume terms) and the market share of cash sales of Adcal D3TM grew from 27.9% as at the end of 2004 to 34.6% as at the end of 2005. At the beginning of 2005 the new 2005 Pharmaceutical Price Regulation Scheme (PPRS) was introduced into the UK and this requires that prices of prescription medicines sold by any company should in aggregate be reduced by 7%. This impacted both Adcal D3TM, to a lesser extent, and our next largest product, Isotard (also sold only in the UK) to a greater extent. Consequently the volume growth for both of these products was substantially ahead of the growth in cash sales.

As expected, the right to distribute the Sandoglobulin product terminated in accordance with the license terms (with the right to market the product reverting to the licensor) with effect from 30 June 2005. Consequently, no further revenues from that product will be recorded.

Sales of key products

Product	Sales (£m)	In market cash sales growth	In market volume growth
Adcal D3™	10.1	+47%	+51%
Isotard	4.2	-3%	+16%
Droperidol	3.3	+17%	+7%
Tebetane™	3.2	-1%	+2%
Sandoglobuline	3.7	N/A	N/A
Rectogesic™	0.6	N/A	N/A

Cost of sales

Cost of sales substantially represents the cash cost of products sold and the non-cash amortisation of the capitalised value of product rights either acquired as part of company acquisitions or in-licensed as stand alone agreements. The total gross margin percentage after allowing for cost of sales was 52.7% (45.7%). As a result of having acquired a number of products through in-licensing or from acquiring companies, the value of the product rights so acquired has been capitalised and is being amortised over a period of years through the income statement. The amortisation of product rights recorded in cost of sales was £2.3 million (£2.2 million). The cash gross margin from product sales alone increased to 60.0% (55.5%) of product sales. This increase in gross margin arose from changes in the mix of products sold, certain price cuts to meet regulatory or governmental requirements or otherwise and from ceasing to sell Sandoglobuline™ which had a high cost of sales and consequently low gross margin.

Operating expenses

Sales and marketing expenses in the year were £20.0 million (£8.8 million). This increase resulted from having made various acquisitions during the prior year (so that the sales and marketing expenses in the acquired companies were only included for part of the prior year) and of APS during this year as well as having prepared for the launch of certain new products and by increasing the size of our sales forces in certain territories.

Research and development expenses were £22.4 million (£10.3 million). The increase in research and development expenses is mainly attributable to acquisitions in the prior year as ProSkelia, a research and development company, was acquired in August 2004 and so its costs were included for only part of the prior year.

General and Administrative expenses were £11.3 million (£6.8 million). This substantially arose from the larger size of the Group throughout 2005.

Also included within Research and Development expenses and General and Administrative expenses are restructuring costs of £2.9 million (£NIL) relating to a reduction in headcount and associated measures within the Discovery activity.

The non-cash charge for the impairment of goodwill of £Nil (£63.1 million) in the prior year represents the appropriate IFRS treatment of goodwill that arose on the acquisition of ProSkelia and reflects the Directors' view that no significant value has been attributed by external investors to the Research Cash Generating Unit (Research and Development being treated as two Cash Generating Units, one for Research and one for Development). It was therefore appropriate to write down the value of the assets thus acquired to the carrying values of the other tangible and intangible assets.

As the company accounts under IFRS, it is required to expense the cost of share options and share awards made to employees under IFRS 2. This cost, which is not a cash cost, amounted to £2.1 million (£1.0 million).

Intangible assets

The increase in intangible assets to £38.6 million (£26.5 million) arose primarily as a result of the inlicensing of the EU rights to RapinylTM and also as a result of the re-negotiation of the EU license and distribution agreement for RectogesicTM and milestone payments and study costs on TostrexTM.

Cashflow

During 2005, the cash consumed in operations was £27.8 million (£15.7 million). Investing activities (including cash acquired in business combinations) consumed a further £6.1 million (generation of £13.0 million). During the course of the year financing activities (primarily as a result of the IPO on the London Stock Exchange) raised net cash of £39.0 million (£26.6 million). As a result, the net cash on hand at the end of 2005 was £38.7 million.

Consolidated balance sheet (unaudited)

	Group	
Note	31 December 2005	31 December 2004
	£'000	£'000
Assets		
Non-current assets		
Intangible assets	38,642	26,488
Property, plant and equipment	6,381	6,972
Trade and other receivables	-	70
Research and development tax credits receivable	6,252	6,315
	51,275	39,845
Current assets		
Inventories	3,463	3,232
Trade and other receivables	6,412	8,758
Income tax receivable	233	24
Research and development tax credits receivable	1,435	473
Investments available for sale	-	95
Cash and cash equivalents	38,730	34,028
	50,273	46,610
Liabilities		
Current liabilities		
Trade and other payables	19,147	16,835
Retirement benefit obligations	-	24
Provisions for other liabilities and charges	2,143	26
	21,290	16,885
Net current assets	28,983	29,725
Non-current liabilities		
Retirement benefit obligations	323	345
Other non-current liabilities	8,517	2,891
Provisions for other liabilities and charges	2,103	383
	10,943	3,619
Net assets	69,315	65,951
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	4	158,786
Other reserves		77,911
Retained earnings		(167,382)
Total equity		69,315
		65,951

Consolidated income statement (unaudited)

Group	Note	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Sales		31,637	21,592
Cost of goods sold		(14,949)	(11,715)
Gross profit		16,688	9,877
Distribution costs		(19,970)	(8,829)
Research and development		(22,429)	(10,261)
Administrative expenses		(11,307)	(6,779)
Impairment of goodwill		-	(63,125)
Excess of acquirer's interest in the fair value of net assets over cost		-	3,015
Other gains – net		206	200
Operating loss		(36,812)	(75,902)
Finance costs – net		1,432	300
Loss before income tax		(35,380)	(75,602)
Taxation		1,615	1,881
Loss for the year		(33,765)	(73,721)
Attributable to equity holders of the Company			
Loss per share for loss attributable to the equity holders of the Company during the year (shares outstanding at 31 December 2005) (expressed in pence per share)			
- basic	5	(21.5)	(98.7)
- diluted	5	(20.7)	(95.6)

Consolidated statement of changes in equity (unaudited)

	Note	Attributable to equity Holders of the Company			Total equity £'000
		Share capital £'000	Other reserves £'000	Retained earnings £'000	
Balance at 1 January 2004		64,728	3,965	(59,881)	8,812
Currency translation differences – being net income recognised directly in equity		-	3,741	-	3,741
Loss for the year		-	-	(73,721)	(73,721)
Total recognised income for 2004		-	3,741	(73,721)	(69,980)
Employee share option scheme:					
- value of employee services		-	958	-	958
- proceeds from shares issued		45	-	-	45
Other share based payments		82	-	-	82
Issue of share capital		22,803	-	-	22,803
Issue of share capital- business combinations		35,099	58,503	-	93,602
Shares to be issued- business combinations		-	462	-	462
Issue of warrants- business combinations		-	5,894	-	5,894
Options issued and assumed- business combinations		-	3,382	-	3,382
Purchase of own shares by ESOP		(200)	-	-	(200)
Sale of own shares by ESOP		91	-	-	91
		57,920	69,199	-	127,119
Balance at 31 December 2004		122,648	76,905	(133,602)	65,951
Balance at 1 January 2005		122,648	76,905	(133,602)	65,951
Currency translation differences – being net income recognised directly in equity		-	(1,127)	-	(1,127)
Loss for the year		-	-	(33,765)	(33,765)
Total recognised income for 2005		-	(1,127)	(33,765)	(34,892)
Employee share option scheme:					
- value of employee services		-	2,133	-	2,133
- proceeds from shares issued	4	130	-	-	130
Other share based payments	4	32	-	-	32
Issue of share capital	4	40,200	-	-	40,200
Cost of issue of share capital	4	(4,667)	-	-	(4,667)
Purchase of own shares by ESOP	4	(200)	-	-	(200)
Sale of own shares by ESOP	4	630	-	(2)	628
Revaluation of own shares held by ESOP	4	13	-	(13)	-
		36,138	2,133	(15)	38,256
Balance at 31 December 2005		158,786	77,911	(167,382)	69,315

Consolidated cash flow statement (unaudited)

		Group	
	Note	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Cash flows from operating activities			
Cash used in operations	6	(29,612)	(16,466)
Interest received		1,474	331
Interest paid		(42)	(31)
R&D tax credits received		473	500
Income tax paid		(62)	(56)
Net cash used in operating activities		(27,769)	(15,722)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(2,133)	(9,932)
Sale of money market instruments (acquired in business combination)		93	25,741
Purchases of intangible assets		(2,602)	(1,834)
Purchases of property, plant and equipment (PPE)		(1,447)	(1,057)
Proceeds from sale of PPE	6	13	94
Net cash generated by investing activities		(6,076)	13,012
Cash flows from financing activities			
Net proceeds of accounts receivable factoring	6	2,899	3,871
Proceeds from issuance of ordinary shares (net of own shares purchased by ESOP)	4	35,462	22,602
Sale of own shares by ESOP	4	630	91
Net cash generated by financing activities		38,991	26,564
Net increase in cash and bank overdrafts		5,146	23,854
Cash and bank overdrafts at beginning of the year		34,028	8,763
Exchange (losses)/gains on cash and bank overdrafts		(444)	1,411
Cash and bank overdrafts at end of the year		38,730	34,028

1. General information

ProStrakan Group plc (the “Company”) and its subsidiaries (together the “Group”) are engaged directly and indirectly in the research, development, registration, manufacture, distribution and sale of pharmaceuticals and other similar products and related services.

On 29 April 2005, the Group completed the corporate acquisition of APS Pharma GmbH, a pharmaceutical marketing company incorporated in Germany. During 2004 the Group completed four corporate acquisitions: OTL Pharma SA, a pharmaceutical marketing company incorporated in France, was acquired on 26 January 2004; Proskelia BV, a pharmaceutical research and development company incorporated in the Netherlands, was acquired on 26 August 2004; and two pharmaceutical marketing companies incorporated in Spain, Devon Farmacéutica SLU and Elfar SA, were acquired on 2 September and 30 November 2004 (respectively).

The Company reregistered as a public company on 2 March 2005 and was admitted to the London Stock Exchange on 16 June 2005. The Company is incorporated and domiciled in the United Kingdom, with its registered office at Galabank Business Park, Galashiels, TD1 1QH, Scotland.

2. Summary of significant account policies

In 2004 ProStrakan Group plc prepared its consolidated financial statements under UK Generally Accepted Accounting Practice (UK GAAP). Following European Parliament legislation passed in 2002, all listed EU companies are required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) with effect from 1 January 2005.

ProStrakan Group plc has therefore prepared its first IFRS compliant Report and Accounts for the year ended 31 December 2005. The Group presents comparative IFRS financial information for the year ended 31 December 2004 and consequently the date of transition to IFRS for the Group is 1 January 2004, being the first day of the comparative period.

The financial information presented in these financial statements has been prepared on the basis of those International Financial Reporting Standards, International Accounting Standards, and International Financial Reporting Interpretations Committee (IFRIC) and Standard Interpretation Committee (SIC) interpretations that are applicable to 2005 financial reporting.

2.1 Segment reporting

The Group’s primary segment for IFRS segment reporting is the business segment: a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group operates in a single business segment, pharmaceuticals. Geographical regions are the secondary reporting segments, where the Group is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of other economic environments.

2.2 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition and is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGU) for the purpose of impairment testing. Research and development are viewed as separate CGUs. Each commercial territory under the control and guidance of a General Manager is a CGU.

(b) In-process Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measure reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

In-process R&D acquired in a business combination is recognised separately as intangible assets if and only if they meet the definition of intangible assets in IAS 38 and their fair value can be measured reliably.

All development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. Prior to commercial production of the product the asset is tested annually for impairment. Provision is made for any impairment.

(c) Product rights

Product rights and other intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, they are recorded at fair value where they are separately identifiable and their value can be readily ascertained. Product rights are amortised over their useful life on a straight-line basis from the date of the first commercial launch. Estimated useful life is the lower of legal duration and economic useful life, up to a maximum of 10 years. Prior to their first commercial launch they are tested annually for impairment. Provision is made for any impairment.

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (not exceeding 3 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding 3 years).

(e) Chemical library

Early stage chemical libraries built up for use in research activities and acquired in a business combination has been recognised separately as an intangible asset. This is being amortised over its estimated useful life of 10 years.

2.3 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where any Group company or employee share ownership plan (ESOP) purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

2.4 Employee benefits

(a) Pension obligations

Group companies operate two defined benefit pension schemes. The schemes are unfunded, and the obligations are determined by annual actuarial calculations. The schemes are mandatory under the French Chemical and Pharmaceutical Industries Collective Agreements and require the companies to pay retirement lump-sum amounts depending on the employees' seniority as and when they retire from the company with full pension as defined by the French Social Security system.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit or loss over the employees' expected average remaining working lives, only to the extent that their net cumulative amount exceeds 10% of the greater of the present value of the obligation or of the fair value of the plan assets at the end of the previous year. The plan is unfunded, so there are no plan assets. Unrecognised actuarial gains and losses are reflected on the balance sheet.

Past-service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(b) Long service employee benefits

One of the Group's French subsidiaries operates a long service employment benefit scheme, whereby employees are paid seniority bonuses upon reaching certain anniversaries within the company. The liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at a rate equivalent to the current rate of return on a high quality corporate bond in France of equivalent term to the scheme liabilities. The actuarial valuations are obtained annually. Service costs are included in staff costs and charged to profit or loss in the period in which they become payable. The liability is presented within provisions for liabilities and charges.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of

original estimates, if any, in profit or loss, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(d) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(e) *Bonus plans*

The Group recognises a liability and an expense for bonuses, based upon agreed bonus plans in place at the balance sheet date.

3. Segment information

Primary reporting format - business segments

Based on the risks and returns the directors consider that the primary reporting format is by business segment. The directors consider that there is only one business segment, being pharmaceuticals. The Group develops, registers, internationally markets or outlicenses a range of pharmaceutical products. The Group also generates limited revenues from other sources, mainly the sale of development resources. Therefore the disclosures for the primary segment have already been given in the financial statements.

Secondary reporting format – geographical segments

The Group is organized on a worldwide basis. The operations are based in three main geographical areas. The United Kingdom is the home of the parent company. There are no material inter-segment transfers.

Group	2005	2004
	£'000	£'000
Sales		
United Kingdom	15,518	11,741
European Union (excluding the UK)	15,777	9,512
Other countries	342	339
	31,637	21,592

Sales are allocated based on the country in which the customer is located.

Total assets		
United Kingdom	42,097	27,601
European Union (excluding the UK)	42,501	54,900
Other countries	16,950	3,954
	101,548	86,455

Total assets are allocated based on where the assets are located.

Capital expenditure		
United Kingdom	1,138	52
European Union (excluding the UK)	2,758	91,790
Other countries	11,905	3,961
	15,801	95,803

Capital expenditure is allocated based on where the assets are located.

Analysis of sales by category		
Sales of goods	31,106	21,288
Revenue from services	134	138
Licensing Income	330	101
Royalty income	67	65
	31,637	21,592

4. Share capital

	Total
	'000
Authorised – shares of £0.05 each	
31 December 2005	400,000
Issued and fully paid – shares of £0.05 each	
In issue at 31 December 2005	186,792
Own shares held by ESOP	(20)
	186,772

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005	
	Average exercise price per share	Options ('000)
At 1 January 2005	1.3113	13,950
Granted	1.2036	2,222
Assumed on acquisition of ProSkelia BV	-	-
Exercised	0.9237	(140)
Lapsed/expired/surrendered	1.5346	(1,236)
At 31 December 2005	1.4200	14,796

Out of the 14,795,874 outstanding options, 9,355,513 options were exercisable. Options exercised in 2005 resulted in 139,983 shares being issued at £0.9237 each.

5. Earnings per share

As required by IAS 33 the earnings per share figures reflect the shares outstanding at 31 December 2004 and restated following the capital reorganisation on admission.

Basic

Basic earnings per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the ESOP, which are treated as cancelled.

	As at 31 December 2005	As at 31 December 2004
Loss attributable to equity holders of the Company (£'000)	(33,765)	(73,721)
Weighted average number of ordinary shares in issue ('000)	130,854	74,709
Basic loss per share (pence per share)	(21.5)	(98.7)

Diluted

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares includes only in-the-money options and PSP awards. For a loss making company with outstanding share options and warrants, net loss per share would only be increased by the exercise of out-of-the-money options and warrants (where the exercise price is above the average share price during the year). Since it seems inappropriate to assume that option and warrant holders would exercise out-of-the-money share options and warrants, no adjustment has been made for these potential ordinary shares.

	As at 31 December 2005	As at 31 December 2004
Loss attributable to equity holders of the Company (£'000)	(33,765)	(73,721)
Weighted average number of ordinary shares in issue ('000)	157,001	74,709
Adjustment for – shares to be issued ('000)	6,378	2,424
Weighted average number of ordinary shares for diluted earning per share ('000)	163,379	77,133
Diluted loss per share (pence per share)	(20.7)	(95.6)

6. Cash generated from operations

	Group	
	2005	2004
	£'000	£'000
Loss for the period	(33,765)	(73,721)
Adjustments for:		
- Tax	(1,615)	(1,881)
- Depreciation	1,827	665
- Amortisation	2,700	2,482
- Impairment of Goodwill	-	63,125
- Excess of acquirer's interest in the fair value of acquiree's identifiable net assets over cost	-	(3,015)
- (Profit)/loss on sale of property, plant and equipment (see below)	5	2
- Net movement in pension liability	(12)	21
- Net movement for provisions for liabilities and charges	(16)	33
- Charges for share based employee benefits	2,162	1,034
- Gain/(loss) on short term investments	(1)	-
- Fair value gains (including profit on disposal) on other financial assets at fair value through profit or loss	-	(130)
- Net proceeds from accounts receivable factoring	(2,899)	(3,871)
- Interest income	(1,474)	(331)
- Interest expense	42	31
- Changes in working capital (excluding the effects of acquisition and exchange difference on Consolidation):		
- Inventories	(141)	50
- Trade and other receivables	2,675	(235)
- Trade and other payables	900	(725)
Cash generated from operations	(29,612)	(16,466)
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount	18	96
Profit/(loss) on sale of property, plant and equipment	(5)	(2)
Proceeds from sale of property, plant and equipment	13	94

Non-cash transactions

The principal non-cash transactions were the issue of equity instruments as consideration for the acquisitions and issued to employees and directors.