

Press Release

ProStrakan Group plc

Interim Results for the Six Months Ended 30 June 2009

Galashiels, UK, 20 August 2009: ProStrakan Group plc (LSE: PSK), the international specialty pharmaceutical company, today announces its Interim Results for the six months ended 30 June 2009.

FINANCIAL HIGHLIGHTS

- Total revenues up 40% to £37.0m (2008: £26.4m)
- Product sales up 36% to £34.6m (2008: £25.4m)
- Gross profit up 44% to £24.8m (2008: £17.2m)
- Operating loss from continuing operations of £6.7m (2008: £9.8m loss)
- Pre-tax loss reduced to £9.4m (2008: £11.8m loss)
- Net cash at 30 June of £28.1m (31 December 2008: £34.7m) after additional £5.0m drawdown. Total of £42.0m drawn down from £50.0m debt facility

OPERATING HIGHLIGHTS

- EU business continues to grow strongly
 - European revenues up 20%
 - Revenues from pan-European products up 48%
 - Abstral now launched in UK, Germany, Sweden and France (July 2009)
 - H1 2009 Abstral sales of £1.0m
- US oncology supportive care business now established
 - Sancuso records H1 2009 sales of £3.7m
 - Abstral US NDA filed (August 2009)
- Fortigel US re-submission filed
- Cellegesic US NDA re-submission planned for H2 2009

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

“The continued progress that we are reporting today reinforces our confidence in achieving break-even by the end of 2009. With revenues up 40%, Sancuso performing well in the US, EU Abstral sales ahead of target and our other EU-wide and country-specific products contributing strongly, I am confident that we remain on track to deliver our first full year of operating profit in 2010.

“We have two further products in registration in the US and one additional filing expected later this year, giving us a well developed pipeline of near-to-market products.

“ProStrakan has carved out a significant position for itself in the international specialty pharma market and we look forward to reporting the Group’s continuing development following the year-end.”

Note to editors

There will be a presentation and conference call for investment analysts today (Thursday 20 August) at 9.00am. Please contact Val Mugridge at Brunswick on +44 (0)20 7396 5325 for details.

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ProStrakan Group plc Interim Results 2009

Introduction

The first part of 2009 represented a period of continued significant development and progress for ProStrakan with further growth in Europe, the launch of Abstral in a number of major EU countries, the successful introduction of Sancuso to the US market and two additional NDA filings in the US (Fortigel: April 2009 and Abstral: August 2009). As a result of this, and the execution of a strategy based on the development and in-licensing of a range of patient-friendly medicines in Europe and the US, we have now reached an important stage in our growth as we move towards achieving break-even later in 2009, ahead of our first full year of operating profit in 2010.

Total revenue for the period increased by 40% to £37.0m (2008: £26.4m) and product sales grew by 36% to £34.6m (2008: £25.4m) as a result of continued growth in our existing product portfolio in Europe, the launch of Abstral in the UK and Germany and the first sales of Sancuso in the US. The stronger Euro accounted for 11% of product sales growth.

We reduced our operating loss in the period to £6.7m (2008: £9.8m loss). Our cash position at 30 June was £28.1m and we have now drawn down a total of £42.0m of our £50.0m debt facility.

On 2 July we reported that we had agreed to make a payment in cash of €9.15m in full and final settlement with Aventis against a €13.4m tax liability, incurred by Aventis, arising from the sale of ProSkelia SAS ("ProSkelia") by ProStrakan in December 2006. This settlement resulted in an additional charge of £0.2m against amounts already provided for, once the impact of currency fluctuations had been realised.

Sales of Key Products

Sancuso is a transdermal patch that delivers granisetron, an established 5-HT₃ receptor antagonist, steadily into the bloodstream for up to seven days, helping to prevent the side-

effects of nausea and vomiting in patients undergoing chemotherapy for up to five consecutive days, without the need for daily injections or having to swallow pills.

Sancuso was launched into the US oncology supportive care market at the end of 2008. Total sales of Sancuso in the US were £3.7m in the first six months of 2009 (2008: £nil) – in line with management's expectations. In addition, by the end of June more than 3,200 Sancuso patches, with a revenue value of £0.5m, had been shipped into the supply chain but not yet recognised as revenue.

The oncology supportive care community in the US has received Sancuso with enthusiasm and this product has established itself well as an important and valuable option for oncologists and oncology nurses in helping to prevent the often distressing and debilitating effects of chemotherapy-induced nausea and vomiting.

Furthermore, we have now achieved reimbursement with 94% of commercially covered lives in the US, with 20% requiring additional authorisation. We have also agreed reimbursement for 68% of the covered lives of the US Government-sponsored Medicare health plans, with most requiring prior authorisation. In June, we were successful in applying a 9% price increase for Sancuso, taking its pre-discount price to \$310 per patch.

Sancuso has now also been approved in South Korea, where we have outlicensed this product to LG Life Sciences who plan to launch it in H1 2010. Additionally, in June the United States Patent and Trademark Office published a Notice of Allowance for the US Patent for Sancuso.

Abstral is a new sub-lingual formulation of fentanyl, a long-established opioid used for the management of episodes of breakthrough pain experienced by cancer patients who are already receiving opioid analgesics for their chronic pain.

Following its launch in Sweden in 2008, Abstral was launched in the UK and Germany in January 2009 and the product has performed ahead of management's expectations, with total sales of £1.0m in the first half of 2009 (2008: £nil), and continues to display encouraging growth.

Feedback from clinicians and patients has also been very positive, confirming our view that the ease of taking Abstral – which dissolves rapidly under the tongue – together with its fast onset of pain relief has resulted in a product which will be a valuable addition to ProStrakan's portfolio.

Since the end of the period, Abstral has been launched in France, ahead of schedule, and its launch in Spain, where a marketing authorisation has already been received, is on track for H2 2009.

Tostran is a transdermal testosterone 2% gel that utilises a proprietary metered dose delivery system for testosterone replacement therapy in male hypogonadism. It is available across Europe and revenues grew by 67% in H1 2009 to £1.0m (2008: £0.6m). Sales growth for this product was particularly strong in the UK (+149%) and Spain (+64%). Tostran now commands a 48% share of the testosterone gel market in Sweden and a 19.5% share in Spain.

Rectogesic is indicated for the relief of pain associated with chronic anal fissures. This product is also now available in all major EU territories and has also displayed strong growth. Revenues grew by 26% in H1 2009 to £3.9m (2008: £3.1m). In Spain, Rectogesic sales more than doubled, albeit from a low base.

Xomolix (also branded as Droperidol) is a branded, injectable drug used primarily in hospitals for the prevention and treatment of post-operative nausea and vomiting. This product has been marketed in a number of European countries for some time and, following further EU approvals in 2007, has now been launched in Germany. ProStrakan plans to launch this product in the UK and Spain in September 2009. Total revenues grew by 34% in H1 2009 to £3.9m (2008: £2.9m).

Adcal-D3 is the UK market's leading branded calcium and vitamin D3 oral supplement, used as an adjunct to specific therapy for the treatment of osteoporosis. Adcal-D3 remains ProStrakan's best-selling medicine and continues to show strong growth, with a further 17% increase in sales to £9.1m in H1 2009 (2008: £7.8m). Adcal-D3 now commands a 42% UK cash market share while Adcal-D3 Dissolve has a 49% cash market share of the dissolve market.

Gelclair is a mouth gel indicated for the management and relief of pain associated with Oral Mucositis which can be a side-effect of chemotherapy. Earlier this year ProStrakan signed an exclusive co-promotion agreement with EKR Therapeutics Inc. in the US for this product. Marketing of Gelclair commenced in May 2009 and this product is detailed by the sales force after Sancuso.

Product Development

Abstral – ProStrakan filed the New Drug Application (NDA) for Abstral with the US Food and Drug Administration (FDA) in August 2009 following the successful completion of this product's Phase III US programme earlier this year. The filing is in the validation phase and consequently a target date under the Prescription Drug User Fee Act (PDUFA date) has not yet been set. Subject to receipt of approval by the FDA, ProStrakan plans to market Abstral alongside its other oncology support product, Sancuso.

ProStrakan licensed exclusive rights to this product in Europe and North America from Orexo AB. ProStrakan has out-licensed Abstral in Canada to Paladin Labs Inc.

Sancuso – ProStrakan filed the European Marketing Authorisation for Sancuso in July 2007. In accordance with EU legislation, we have submitted a referral request to allow discussion at the European Medicines Agency's Committee for Medicinal Products for Human Use. This request is currently being considered by the European Commission. As a result, we are awaiting an indication of the timescales for European approval of Sancuso.

Fortigel (branded as Tostran in Europe) – In April 2009 ProStrakan filed its response to the Action Letter previously issued by the FDA relating to the NDA for Fortigel (testosterone) 2% gel and this product is now under active review by the FDA. We are currently exploring our options on how best to capitalise on the value of this product in the US, the world's largest testosterone gel market.

Cellegesic (branded as Rectogesic in Europe) – This product has successfully completed its Phase III US trial and ProStrakan plans to re-file the NDA for this product later in 2009.

Business Partnering

ProStrakan's strategy is to develop an ongoing revenue stream from our high value medicines in non-core markets by securing partnership arrangements with companies who have strong distribution capabilities in these markets.

We are announcing today the extension of our existing licence and distribution agreement with Bayer Schering Pharma (BSP) for Tostran. BSP will now also develop and commercialise this product in Central & Eastern Europe, the Commonwealth of Independent States (CIS) and selected countries in Africa. This extends our current agreement with BSP for Tostran to a total of 147 countries.

In early 2009 we signed further exclusive licence and supply agreements for Sancuso in certain countries in the Pacific Region (with Invida Pharmaceutical Holdings PTE Ltd) and for Turkey (with NewBridge Pharmaceuticals FZ LLC). Sancuso has now been outlicensed in a total of 72 countries worldwide.

People

On 3 June 2009, ProStrakan announced that Chief Financial Officer, Paul Garvey, had decided to step down from this role and consequently he resigned from the Board on 18 August 2009. The Board of ProStrakan wishes to thank Paul for his very significant contribution to the development of the Group during his time with the Company and to wish him success and continued good health in the future. The Group's new CFO, Allan Watson, is scheduled to join the Company shortly.

Furthermore the Board recognises that ProStrakan's continued development and the significant progress that has been achieved so far in 2009 has been accomplished as a result of the hard work and diligent application of the entire ProStrakan team both in Europe and in the US and it wishes to record its thanks to them.

Outlook

Our strong progress in the first half of 2009 has continued since the end of the period. US sales of Sancuso are progressing satisfactorily and EU sales of Abstral will be further boosted following the launch of this product in France in July, with Spain scheduled to come on-stream later in the year. Sales of our other EU-wide and country-specific products are also performing well.

With two products (Abstral and Fortigel) in registration in the US and one further filing (Cellegesic) planned for H2 2009, the Company's pipeline of near-to-market products is also well-developed.

The Board and Management of ProStrakan remain sharply focused on reaching break-even by the end of 2009 and delivering ProStrakan's first full year of operating profit in 2010.

Peter Allen
Chairman
ProStrakan Group plc

20 August 2009

Financial Review

The financial results for the six months ended 30 June 2009, prepared under the Group's accounting policies based on International Financial Reporting Standards, are presented below.

Revenue

Revenue increased by 40% to £37.0m (2008: £26.4m), with product sales increasing by 36% to £34.6m (2008: £25.4m) and licensing, royalties and other revenue also increasing to £2.4m (2008: £1.0m). Our European business remains strong with revenues up 20% overall including revenues from pan-European products up 48% and the launch of Abstral in UK and Germany in H1 2009. The launch of Sancuso in the US in late 2008 also contributed £3.7m to the growth in sales in H1 2009. Currency contributed 11% of the revenue growth.

Gross Profit

Gross profit increased to £24.8m from £17.2m in H1 2008. The increase in gross profit resulted from improved margin on the pan-European products and US Sancuso sales, offset by the currency impact of Euro-sourced products.

Operating Costs & Losses

Operating costs consisted of distribution costs of £19.5m (2008: £13.2m), administrative expenses of £4.3m (2008: £4.2m), development costs of £5.3m (2008: £6.0m) and other losses of £nil (2008: £2.2m). The substantial increase in distribution costs reflects a full six months of the US commercial operation plus increased spend in Europe supporting the Abstral launch, combined with the additional impact of operating in Europe and the US through a period of significant currency pressure against Sterling. Development spend remains on plan in support of our key US investments in Abstral, Fortigel and Cellegesic. The other exceptional losses charge of £2.2m in 2008 reflected the impairment charge incurred to June 2008, relating to the available for sale financial asset (Galapagos NV shares).

EBITDA

EBITDA showed a significant improvement at a loss of £4.3m (2008: loss of £6.2m before exceptional other losses), despite the increase in distribution costs.

Finance income for the first half of the year decreased to £0.2m (2008: £0.5m) reflecting the significant reduction in deposit rates experienced in H1 2009, while finance costs increased

to £2.7m (2008: £1.8m), recognising the additional sums drawn down under the loan facility, together with amortised costs associated with this facility. In addition, we have recognised the increase of £0.2m (2008: £0.7m) in fair value of the warrants issued to the Lenders in March 2007.

After a small taxation charge £0.3m (2008: £nil), the loss for the period from continuing operations decreased to £9.7m (2008: loss £11.8m).

The loss from discontinued operations £0.2m (2008: £nil), reflects the small additional accrual required in respect of the Aventis tax settlement, finalised in July 2009.

Loan Facility

In June 2009 a further £5.0m was drawn down from the available £50.0m secured debt facility established in March 2007, bringing the total amount drawn down to date to £42.0m (June 2008: £30.0m).

Cash Flow

The loss for the financial period, adjusted for non-cash items such as tax, depreciation and amortisation less the working capital requirements, led to a net cash outflow from operating activities of £8.6m (2008: outflow of £6.4m). Net finance income and finance costs impacted the cashflow by £1.9m (2008: impact £0.8m) while net capital expenditure on tangible and intangible assets amounted to £0.9m (2008: £0.3m). Net financing activities, representing the debt facility drawdown, contributed £5.0m (2008: £10.0m) to cash, resulting in a cash decrease in the first half of 2009 of £6.3m (2008: increase £2.6m). Exchange losses impacted the cashflow by £0.3m (2008: exchange losses £0.1m). Actual cash at the end of the period was £28.1m (June 2008: £27.0m).

Balance Sheet

The Group's non-current assets at 30 June 2009 were £41.5m (2008: £48.6m). This total consists of: intangible assets of £38.0m; property, plant and equipment of £1.3m and deferred tax assets of £2.2m. The intangible assets consist of acquired product rights of £28.2m, goodwill of £9.7m and other intangibles of £0.1m. Inventories have increased to £7.4m (2008: £5.8m) while trade and other receivables have increased to £9.4m (2008: £8.9m). Trade and other payables, which include the Aventis indemnification of the tax liability arising from the disposal of ProSkelia in 2006, increased to £31.5m (2008: £28.0m).

The fair value of warrants issued to the Lenders increased to £2.4m (December 2008: £2.2m). Other non-current liabilities have increased to £14.3m (2008: £10.1m), whilst borrowings have increased to £39.3m (2008: £26.1m), reflecting the additional amounts drawn down during the year and the movement in the amortised cost relating to the facility. Total equity at 30 June 2009 was £(1.0)m (2008: £24.3m).

Post Balance Sheet events

On 2 July ProStrakan reported that it has agreed to make a payment in cash of €9.15m in full and final settlement with Aventis against a €13.4m tax liability, incurred by Aventis, arising from the sale of ProSkelia by ProStrakan in December 2006. This settlement resulted in an additional charge of £0.2m against amounts already provided, which has been included under discontinued operations.

Principal Risks and Uncertainties

The principal risks and uncertainties for the Group have not materially changed from those set out in the Directors Report on pages 27 and 28 of the 2008 Annual Report.

Consolidated Interim Income Statement
(unaudited)

		Six months ended 30 June	Six months ended 30 June	Year ended 31 December	Exceptionals	Year ended 31 December 2008 after Exceptionals
	Note	2009 £m	2008 £m	2008 £m	£m	£m
Revenue	3	37.0	26.4	56.1	-	56.1
Cost of goods sold		(12.2)	(9.2)	(20.0)	-	(20.0)
Gross profit		24.8	17.2	36.1	-	36.1
Distribution costs		(19.5)	(13.2)	(30.7)	-	(30.7)
Administrative expenses		(4.3)	(4.2)	(9.2)	-	(9.2)
Development		(5.3)	(6.0)	(10.6)	-	(10.6)
Other (losses) / gains - net		-	(2.2)	0.1	(1.7)	(1.6)
Earnings before interest, taxation, depreciation and amortisation		(4.3)	(8.4)	(14.3)	(1.7)	(16.0)
Depreciation of tangible assets		(0.1)	(0.1)	(0.3)	-	(0.3)
Amortisation of intangible assets		(2.0)	(1.3)	(2.5)	-	(2.5)
Impairment of product rights		(0.3)	-	(0.1)	(2.2)	(2.3)
Operating loss		(6.7)	(9.8)	(17.2)	(3.9)	(21.1)
Finance income		0.2	0.5	1.1	-	1.1
Finance cost		(2.7)	(1.8)	(4.4)	-	(4.4)
Movement in fair value of warrants		(0.2)	(0.7)	(0.8)	-	(0.8)
Loss before income tax		(9.4)	(11.8)	(21.3)	(3.9)	(25.2)
Taxation	6	(0.3)	-	2.5	-	2.5
Loss for the period from continuing operations		(9.7)	(11.8)	(18.8)	(3.9)	(22.7)
Discontinued operations		(0.2)	-	-	(2.4)	(2.4)
Loss for the period		(9.9)	(11.8)	(18.8)	(6.3)	(25.1)

Attributable to equity shareholders

Earnings per share for loss attributable to the equity holders of the Company during the period

Basic and diluted earnings per share (expressed in pence per share)

From continuing operations	5	(4.8)	(5.9)	(11.3)
From discontinued operations		(0.1)	-	(1.2)
		<u>(4.9)</u>	<u>(5.9)</u>	<u>(12.5)</u>

The notes on pages 17 to 22 are an integral part of these consolidated interim financial statements.

Consolidated Statement of Comprehensive Income
(unaudited)

	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008	Exceptionals	Year ended 31 December 2008 after Exceptionals
	£m	£m	£m	£m	£m
Loss for the period	(9.9)	(11.8)	(18.8)	(6.3)	(25.1)
Fair value gains on available-for-sale assets net of tax	-	-	(0.9)	-	(0.9)
Currency translation differences	0.4	-	(1.8)	-	(1.8)
Total comprehensive income for the period	(9.5)	(11.8)	(21.5)	(6.3)	(27.8)

The notes on pages 17 to 22 are an integral part of these consolidated interim financial statements.

Consolidated Interim Balance Sheet
(unaudited)

	Note	30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Assets				
Non-current assets				
Available-for-sale financial assets		-	5.6	-
Intangible assets		38.0	38.5	41.7
Property, plant and equipment	7	1.3	1.2	1.4
Other receivables		-	2.4	-
Deferred tax assets		2.2	-	2.4
Research and development tax credits receivable		-	0.9	1.1
		41.5	48.6	46.6
Current assets				
Inventories		7.4	5.8	7.0
Trade and other receivables		9.4	8.9	11.0
Income tax receivable		0.5	0.5	0.5
Research and development tax credits receivable		-	0.1	0.1
Cash and cash equivalents		28.1	27.0	34.7
		45.4	42.3	53.3
Liabilities				
Current liabilities				
Trade and other payables		31.5	28.0	38.7
Provisions for other liabilities and charges		0.4	0.1	0.6
Warrant liability		2.4	2.2	2.2
		34.3	30.3	41.5
Net current assets		11.1	12.0	11.8
Non-current liabilities				
Other non-current liabilities		14.3	10.1	16.1
Borrowings		39.3	26.1	33.7
Provisions for other liabilities and charges		-	0.1	-
		53.6	36.3	49.8
Net (liabilities)/assets		(1.0)	24.3	8.6
Equity				
Capital and reserves attributable to the Company's equity holders				
Share capital	4	172.2	172.2	172.2
Other reserves		70.2	72.4	69.9
Retained earnings		(243.4)	(220.3)	(233.5)
Total equity		(1.0)	24.3	8.6

The notes on pages 17 to 22 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Changes in Equity
(unaudited)

	Share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2008	172.2	72.0	(208.4)	35.8
Loss for the period	-	-	(11.8)	(11.8)
Total comprehensive income for the period	-	-	(11.8)	(11.8)
Employee share option scheme:				
- value of services provided	-	0.1	-	0.1
- warrants issued	-	0.2	-	0.2
	-	0.3	-	0.3
Balance at 30 June 2008	172.2	72.3	(220.2)	24.3
Balance at 1 July 2008	172.2	72.3	(220.2)	24.3
Loss for the period	-	-	(13.3)	(13.3)
Fair value gains, net of tax:				
- available-for-sale financial assets	-	(0.9)	-	(0.9)
Currency translation difference	-	(1.8)	-	(1.8)
Total comprehensive income for the period	-	(2.7)	(13.3)	(16.0)
Employee share option scheme:				
- value of services provided	-	0.1	-	0.1
-warrants issued	-	0.2	-	0.2
	-	0.3	-	0.3
Balance at 31 December 2008	172.2	69.9	(233.5)	8.6
Balance at 1 January 2009	172.2	69.9	(233.5)	8.6
Loss for the period	-	-	(9.9)	(9.9)
Currency translation difference	-	0.4	-	0.4
Total comprehensive income for the period	-	0.4	(9.9)	(9.5)
Employee share option scheme:				
- value of services provided	-	(0.1)	-	(0.1)
- warrants issued	-	-	-	-
	-	(0.1)	-	(0.1)
Balance at 30 June 2009	172.2	70.2	(243.4)	(1.0)

The notes on pages 17 to 22 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Cash Flows
(unaudited)

	Note	Six months ended 30 June 2009 £m	Six months ended 30 June 2008 £m	Year ended 31 December 2008 £m
Cash flows from operating activities				
Continuing operations	8	(8.6)	(6.4)	(7.1)
Discontinued operations		-	-	-
Cash used in operations		(8.6)	(6.4)	(7.1)
Finance income		0.2	0.5	1.1
Finance cost		(2.1)	(1.3)	(3.2)
		(1.9)	(0.8)	(2.1)
Net cash used in operating activities		(10.5)	(7.2)	(9.2)
Cash flows from investing activities				
Purchases of intangible assets		(0.8)	(0.2)	(2.0)
Purchases of property, plant and equipment (PPE)		(0.1)	(0.1)	(0.3)
Proceeds from sale of PPE and intangibles	7	0.1	0.1	0.1
Proceeds from disposal of available-for-sale financial assets		-	-	4.6
Cash flows (used)/generated in continuing operations - investing activities		(0.8)	(0.2)	2.4
Cash flows from financing activities				
Net proceeds from borrowings		5.0	10.0	17.0
Net cash generated by financing activities		5.0	10.0	17.0
Net (decrease)/increase in cash and cash equivalents		(6.3)	2.6	10.2
Cash and cash equivalents at the beginning of the period		34.7	24.5	24.5
Exchange losses on cash and cash equivalents		(0.3)	(0.1)	-
Cash and cash equivalents at the end of the period		28.1	27.0	34.7

The notes on pages 17 to 22 are an integral part of these consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

1. General information

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

The Company is incorporated and domiciled in the United Kingdom, with its registered office at Galabank Business Park, Galashiels, TD1 1QH, Scotland.

The company is listed on the London Stock Exchange.

This condensed consolidated interim financial information was approved by the Board of Directors for issue on 19 August 2009 and is unaudited.

This condensed consolidated financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2008 were approved by the Board of Directors on 16 April 2009 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under section 498 of the Companies Act 2006.

In recognition of the negative net assets position as at 30 June 2009, the Directors are satisfied, after making appropriate enquiries, that the Group has adequate resources to continue in business for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing this interim financial information.

2. Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

- IFRS 8 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the group.

- IFRIC 13, 'Customer loyalty programmes'
- IFRIC 15, 'Arrangements for the construction of real estate'
- IFRIC 16, 'Hedges of a net investment in a foreign operation'
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'

2.1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with IFRSs as adopted by the European Union.

2.2 Debt facility

Costs relating to the debt facility have been included in the financial instrument's initial measurement and will be amortised in the income statement over the instrument's life. Warrants issued as part of the debt facility have been recorded at fair value at initial recognition and are accounted for as a derivative financial liability.

Movements in fair value are recognised in the income statement. The fair value of the debt element at initial recognition has been determined using the market rate of interest for a similar financial instrument that does not include a warrant component. Thereafter the debt is measured at amortised cost.

Analysis of net debt

	1 January 2009	Cash flow	Non-cash flow	30 June 2009
	£m	£m	£m	£m
Cash and cash equivalents	34.7	(6.3)	(0.3)	28.1
Debt due after one year				
Borrowings	33.7	5.0	0.6	39.3

3. Segment information

The chief operating decision-maker has been identified as the Board of Directors. The Board reviews the group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business from a geographic perspective and assesses the performance of UK, EU (excluding the UK), US and Licensing Income/Other.

The Board assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA). This measurement basis excludes the effects of non-recurring expenditure from the operating segments. Finance income and expenditure are not included in the result for each operating segment that is reviewed by the Board. Other information provided to the Board is measured in a manner consistent with that in the financial statements.

Total assets exclude cash and cash equivalents which are managed on a central basis. These are part of the reconciliation to total balance sheet assets.

Segmental reporting	Six months ended	Six months ended	Year ended 31
	30 June	30 June	December
	2009	2008	2008
	£m	£m	£m
Revenue			
UK	14.3	12.4	27.2
EU (excluding the UK)	16.3	12.8	26.6
US	3.7	-	0.2
Licensing Income/Other	2.7	1.2	2.1
	37.0	26.4	56.1

Adjusted Earnings before interest, taxation, depreciation and amortisation			
UK	(6.4)	(8.0)	(11.9)
EU (excluding the UK)	(0.9)	(2.7)	(6.4)
US	(6.1)	(1.0)	(5.1)
Licensing Income/Other	9.1	3.3	7.4
	(4.3)	(8.4)	(16.0)

A reconciliation of total adjusted EBITDA is provided as follows:

Adjusted EBITDA	(4.3)	(8.4)	(16.0)
Depreciation	(0.1)	(0.1)	(0.3)
Amortisation	(2.0)	(1.3)	(2.6)
Impairment of product rights	(0.3)	-	(2.2)
Finance income	0.2	0.5	1.1
Finance cost	(2.7)	(1.8)	(4.4)
Revaluation of warrants	(0.2)	(0.7)	(0.8)
Discontinued	(0.2)	-	(2.4)
Taxation	(0.3)	-	2.5
Loss for the period	(9.9)	(11.8)	(25.1)

Total assets			
UK	5.1	4.0	5.3
EU (excluding the UK)	23.0	30.6	27.6
US	1.2	-	1.1
Licensing Income/Other	29.5	29.3	31.2
	58.8	63.9	65.2

Reportable segments' assets are reconciled to total assets as follows

Total segment assets	58.8	63.9	65.2
Cash and cash equivalents	28.1	27.0	34.7
Total assets per balance sheet	86.9	90.9	99.9

Capital expenditure			
UK	0.1	-	0.1
EU (excluding the UK)	0.1	0.1	0.3
US	-	-	-
Licensing Income/Other	0.7	0.1	3.6
	0.9	0.2	4.0

4. Share capital

	Total m
Authorised – shares of £0.05 each	
30 June 2009	400.0
Issued and fully paid – shares of £0.05 each	
In issue at 30 June 2009	201.2

	Number of shares m	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2009 and 30 June 2009	201.2	10.0	162.2	172.2

All issued shares are fully paid.

The number of options that have lapsed and expired at the end of June 2009 amounted to 1.5m.

5. Earnings per share

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.

	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008
Loss attributable to equity holders of the Company (£m)	(9.9)	(11.8)	(25.1)
Basic earnings per share (pence per share)	(4.9)	(5.9)	(12.5)
Basic earnings per share from continuing operations			
Loss attributable to equity holders of the Company (£m)	(9.7)	(11.8)	(22.7)
Basic earnings per share (pence per share)	(4.8)	(5.9)	(11.3)
Basic earnings per share from discontinued operations			
Loss attributable to equity holders of the Company (£m)	(0.2)	-	(2.4)
Basic earnings per share (pence per share)	(0.1)	-	(1.2)
Weighted average number of ordinary shares in issue (m)	201.2	201.2	201.2

Diluted

IAS 33 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding dilutive potential ordinary shares, net loss per share would only be decreased by the exercise of such potential ordinary shares. Therefore diluted earnings per share is not presented.

6. Income taxes

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year, where applicable. The estimated average annual tax rate used for the year to 31 December 2009 is 29%. (The estimated tax rate for the six months ended 30 June 2009 was also 29%).

7. Property plant and equipment

During the six month period, the group acquired Property, plant and equipment costing £0.1m and disposed of plant and equipment with a net book value of £nil.

8. Cash generated from operations

	Six months ended 30 June 2009	Six months ended 30 June 2008	Restated* Year ended 31 December 2008
Continuing operations			
	£m	£m	£m
Loss for the period	(9.7)	(11.8)	(22.7)
Adjustments for:			
- tax	0.3	-	(2.5)
- depreciation	0.1	0.1	0.3
- amortisation (including write-down of product rights)	2.3	1.3	4.8
- profit on sale of property, plant and equipment (see below)	-	-	(0.1)
- loss on sale of available for sale financial asset	-	2.1	2.8
- net movement in provision for liabilities and charges	0.2	0.3	1.0
- charges for share-based employee benefits	(0.1)	0.3	0.6
- finance income	(0.2)	(0.5)	(1.1)
- finance cost	2.7	1.9	4.4
- movement in fair value of warrants	0.2	0.7	0.8
changes in working capital (excluding the effects of acquisition and exchange difference on consolidation):			
- inventories	(0.4)	(1.3)	(2.5)
- trade and other receivables	2.7	0.4	(2.2)
- trade and other payables	(6.7)	0.1	9.3
Cash generated from operations	(8.6)	(6.4)	(7.1)
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:			
Net book amount	-	-	-
Profit on sale of property, plant and equipment	-	-	0.1
Proceeds from sale of property, plant and equipment	-	-	0.1

	Six months ended 30 June 2009	Six months ended 30 June 2008	Restated* Year ended 31 December 2008
Discontinued operations			
	£m	£m	£m
Loss for the period	(0.2)	-	(2.4)
changes in working capital (excluding the effects of acquisition and exchange difference on consolidation):			
- trade and other receivables	-	-	2.4
- trade and other payables	0.2	-	-
Cash generated from operations	-	-	-

*The cash generated from operations for the year ended 31 December 2008 has been restated to reflect a revised split of the loss between continuing and discontinued operations. The overall cash generated from operations for the Group remains the same.

9. Events after the balance sheet date

In July this year ProStrakan reported it had agreed to make a payment in cash of €9.15m in full and final settlement with Aventis against a €13.4m tax liability, incurred by Aventis, arising from the sale of ProSkelia SAS ("ProSkelia") by ProStrakan in December 2006. This settlement resulted in an additional charge of £0.2m against amounts already provided, which has been included under discontinued operations.

Statement of directors' responsibilities

We confirm that to the best of our knowledge:

- The condensed consolidated set of financial statements has been prepared in accordance with IAS 34 as adopted by the EU.
- The interim management report includes a fair review of the information required by:

DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during the period; and any changes in the related party transactions described in the last Annual Report that could do so.

A list of current directors is maintained on the ProStrakan Group plc website: www.prostrakan.com

By order of the Board:

Peter Allen
Chairman
ProStrakan Group plc
20 August 2009