

Press Release

ProStrakan Group plc

Preliminary results for the year ended 31 December 2006

Transforming year positions ProStrakan for growth and sustainable profitability

Galashiels, Scotland, 28 March 2007 - ProStrakan Group plc (LSE: PSK), the European specialty pharmaceutical company, announces today its unaudited preliminary results for the year ended 31 December 2006.

Operating highlights

- Sancuso™ (transdermal granisetron patch for chemotherapy-induced nausea and vomiting) to be filed for regulatory approval in EU and US during 2007, following successful Phase III trial
- Tostran™ (testosterone gel) and Rectogesic™ (nitroglycerin ointment for the treatment of pain in chronic anal fissures):
 - Successfully completed EU regulatory approval process; launches now underway
 - Key worldwide rights, including North America, acquired on milestone and royalty free basis. Pivotal US clinical trials in preparation
 - Out-licensed rights for CEE and CIS
- Rapinyl™ (for cancer breakthrough pain) and Droperidol (for post-operative nausea and vomiting) submitted for regulatory approval in EU
 - Out-licensed rights for CEE
- Disposal of Proskelia Discovery unit to Galapagos for up to €45m, with rights to Amgen and Novartis collaborations and certain other projects retained. Annual cash burn reduced by c. £9m
- Adcal D3™ (for osteoporosis) achieves market share of 36.9% (cash) and 42.6% (volume), consolidating market leadership in UK

Financial highlights

- Revenue up by 22% to £38.5m (£31.5m)
 - Ongoing like-for-like product sales revenue up by 23% to £33.6m
 - Sales of lead product, Adcal D3™, up 29% to £13.0m (£10.1m)
- Gross profit up by 39% to £23.0m
- R&D expenditure rises to £10.7m (£8.7m) as lead projects progress through late stage trials
- Operating loss (before discontinued operations) of £18.3m (£19.6m)
- Retained loss (including discontinued operations) of £29.6m (£33.8m); loss per share reduced to 15.4 p (21.5p)
- Placing during the year raised £11.3m; net cash at period end of £20.5m
- £50 million debt facility entered into today – see separate press release

Commenting on the results, **Dr Wilson Totten, CEO of ProStrakan**, said: “2006 has been a transforming year for ProStrakan, with the Company having been substantially repositioned to focus on the regulatory approval and global commercialisation of its late stage product portfolio. All four lead products, each of which we believe has sales potential in excess of

\$100m, made progress towards market launch during the year and we shall be continuing the regulatory process for each during 2007, with revenue contributions from these products expected to climb from the second half of this year and during 2008.

“With the divestment of the Company’s Discovery unit having also been successfully completed during 2006, delivering substantial savings in cash burn, as well as the financing facility separately announced today, ProStrakan is now well positioned to achieve its objective of creating a sustainable, rapidly growing and profitable specialty pharmaceutical company.”

For more information, please contact:

ProStrakan

Wilson Totten, CEO

Adrian Gardner, CFO

Today: + 44 (0)20 7831 3113

Thereafter: + 44 (0)1896 664000

Financial Dynamics

David Yates / Anna Keeble

+ 44 (0)20 7831 3113

A presentation and conference call for analysts will be held today at 8.30am 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

Introduction

ProStrakan made real progress on many fronts in 2006 towards its goal of becoming a profitable, sustainable, international specialty pharmaceutical company. Continued organic growth was supplemented by advances on all of our near-to-launch development programmes. M&A and licensing played their part: we acquired the North American rights to two of our key European products and disposed of our Discovery business, thereby allowing us to concentrate our financial resources on growing our business through product launches and late stage clinical trials. As a result, we believe we are well on track to achieve our target of break-even during 2009 and sustainable profitability thereafter. The debt facility that we have entered into today and announced in a separate press release is another marker of our confidence in the profitable future of the Company and of our intent to create value for existing shareholders.

Financial results

Turnover for the year increased to £38.5 million or by 22%. The great majority of turnover arose from the sales of our products by our sales forces and was derived from organic rather than acquired growth: organic product sales growth was 23%, bringing product sales to £33.6 million. Operating costs remained tightly controlled and consequently the operating loss at £18.3 million was in line with expectations. This operating result is stated before taking account of discontinued operations (being our Paris-based Discovery activity which was sold during the year) with the after tax result after discontinued operations being a loss of £29.6 million. Cash on hand at the year end was £20.5 million. These results represent a highly satisfactory year on a financial basis combined with significant progress in both the pipeline and supporting infrastructure.

Debt financing

The secured debt facility has a five year term and has no scheduled capital repayment obligations during the first three years. Amounts may be drawn down by reference to the level of sales from key products recorded by ProStrakan in the prior twelve month period. There is an initial committed drawdown capability of £30 million on completion of all conditions precedent, of which ProStrakan has now drawn down £20 million. Interest is generally charged at a rate of (i) the greater of either 3 month LIBOR or 5% plus (ii) a margin of between 5.0% and 5.5%. In addition, the lenders will be issued with warrants over approximately 5.0 million shares (representing 2.5% of current shares in issue). The warrants have a ten year life and an exercise price of 98.052p per warrant.

Strategic overview

During the course of the year, we took the decision to divest our Discovery business and this was successfully sold in December to Galapagos for an exit price of up to €45m. We had gained many things from its ownership and, through the structure of the sale, will continue to have an ongoing interest in many aspects of its activities without having to bear the costs of running the unit. However, the lead time until any of the projects would have become products for commercial sale was sufficiently long – and our in-licensing activity has been consistently successful – that we concluded that the annual cash running costs could be better deployed in other areas of our business, driving near-term revenues. Our low risk approach to product acquisition and development continued to bear fruit as all our key programmes successfully achieved major milestones. The key elements of our business model remain:

- Focusing on revenue and earnings growth
- Driving the sales of our existing in-market and near-to-market products

- Expanding our EU sales and marketing capability
- Commercial entry into the US
- An active approach to licensing and M&A
- Selective investment in our development portfolio

We believe that this approach will create the most value for shareholders over time.

Corporate development

In an active year, we built on the buy-out of the Rectogesic™ royalty obligations and in-licensing of Rapinyl™ towards the end of 2005 by undertaking a placing of shares in July which raised £11.3 million to cover the costs of these transactions. We then succeeded in partnering two of our discovery programmes with excellent partners, Amgen and Novartis, prior to divesting our Discovery unit to Galapagos. We retain the majority of the financial upside from these two partnered programmes.

Perhaps in time the most significant transaction of this year will be seen to have been that whereby we bought out the European milestone and royalty stream to Tostran™ from its licensor, Cellegy, and also acquired in the same transaction substantially all of the remaining worldwide rights, including the US rights, to both Tostran™ and Rectogesic™. Together with our own-developed product, Sancuso, we now have a platform around which to create a potentially highly profitable commercial business in the US and finding an entry point into the US market will be a priority for us during the coming year.

We also continue to generate value from assets in geographic areas in which we do not intend to build our own sales forces. We sub-licensed the Central and East European rights and certain other jurisdictions to external partners for Tostran™, Rectogesic™ and Rapinyl™. We also disposed of the rights to two smaller products, Zindaclin™ and Siklos™.

Sales & Distribution

During 2006 we have completed the integration of the acquisitions that were achieved in 2004 and 2005. These acquisitions brought us the infrastructure to launch our first pan-EU products, the effect of which will start to be seen during this year and, to a greater extent, in 2008.

As a result, the revenue from product sales is in a state of transition: the majority of the revenues for 2006 came from a wide range of products, many of which face generic competition and are sold in only one geographical market. Over time, the relative importance of these products will be replaced by our new products which have greater differentiation, better intellectual property protection and much higher peak sales potential.

In these circumstances, the 16% increase in revenues in 2006 over the previous year reflects a solid performance across the board of our marketed product portfolio. The increase in sales of our currently-marketed products in the market was 23%, representing significant organic growth.

A network of highly experienced Country General Managers leads a specialty sales force of approximately 170 people, augmented from time to time by additional contract resources where appropriate. The focus of the selling effort is mainly in the UK, Germany, France and Spain but in addition the Group has a limited commercial presence in Sweden, Belgium, the Netherlands and Greece and sells to certain other countries on an export basis. The UK sales force principally targets high-prescribing general practitioners and specialists, whilst on the Continent our sales and marketing activities are primarily aimed at specialist physicians.

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 acquired the UK rights to the product in 1997 and sales – and market share - have grown strongly year on year ever since its launch in 1999. With sales of £13.0 million in the year under review, Adcal D3™ grew by 29% over 2005 and has consolidated its position as the single product leader in its market segment in the UK, both in cash and volume terms.

Rectogesic™

Rectogesic™, a topical nitroglycerin ointment indicated for the treatment of pain associated with chronic anal fissures, has continued the strong growth shown since its launch in May 2005. It is the only prescription medicine licensed specifically for the relief of this condition and has been supported by a powerful and award-winning advertising campaign.

The Group acquired certain commercialisation rights to Rectogesic™ from Cellegy Pharmaceuticals Inc in December 2004 and, following the UK launch, and having received further marketing authorisations subsequent to successful completion of the EU mutual recognition procedure, is now being launched in certain other European countries from the first half of 2007. The initial launch in Germany in January 2007 appears to be following the successful path achieved in the UK. During the year, sales of Rectogesic™ (all in the UK) were £1.8 million, an increase of 207% over 2005.

Tostran™

Tostran™ is a testosterone gel product indicated for the treatment of male hypogonadism, the European rights to which we in-licensed from Cellegy in July 2004. We launched the product in Sweden in September 2005 and, having received further marketing authorisations subsequent to successful completion of the EU mutual recognition procedure, is now being launched in certain other European territories from the first half of 2007. 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. Sales of Tostran™ in the small Swedish market were £0.2 million, a significant increase over the 4 months after launch in the previous year.

The European androgen deficiency market is still relatively underdeveloped. Testosterone Deficiency Syndrome prevalence is known to increase with age, some estimates suggesting 9% of 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, 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, Tostran™ 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.)

Droperidol

Droperidol is a branded injectable drug primarily 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 2006 increased by 9% to £3.6 million. Although this is a product which has been on the market for many years, because it does not have a marketing authorisation in most EU territories, we are seeking expanded EU approvals to enable more widespread marketing to be carried out. The success that we have had since this product was in-licensed by our French subsidiary in 2001 – where sales have grown approximately nine-fold since that time – suggests that we should be able to continue growing this product with additional territories where it may be marketed.

Isotard XL™

Sales of our UK-only branded cardiovascular oral drug for the treatment of angina grew by 11% to £4.6 million, continuing a strong volume growth trend which has been evident since it was in-licensed in 2001. Isotard XL competes effectively in a price-sensitive market segment and has grown market share of its market segment every year since it was acquired. Although the performance over many years has been impressive, we do not anticipate that further significant market share gains will be made.

Tebetane™

Our branded oral treatment for mild benign prostatic hyperplasia (BPH) recorded sales of £3.2 million for the year, unchanged from last year. It is currently marketed only in Spain where it is the Group's largest product by sales. It is a phytopharmaceutical product derived from a plant extract, in a segment of the market which is starting to show some decline.

Other products

ProStrakan sells a number of other mainly country-specific products throughout the many of the major markets in Europe. Taken together, they achieved sales of £7.2 million in 2006 compared to £6.0 million in 2005. These products are a mix of branded generics, hospital products and more general products. As noted earlier, the market environment for a number of these products has become more challenging and, in certain markets, some significant price pressure is evident. However, these products only form a relatively small percentage of our revenue and we anticipate that this percentage will decline over time as we launch the better-differentiated and protected products from our pipeline.

Research & Development

Following the divestment of the Discovery unit during 2006, our Development activities are now primarily focused towards products in late-stage clinical trials or in registration as well as in maintaining our on-market products.

The programmes currently being taken forward by the Group have the prospect of peak sales that are materially higher than our currently marketed products and benefit from substantial intellectual property protection and, in most cases, worldwide commercialisation rights. As part of our strategy of risk mitigation, the majority of our late-stage programmes utilise novel delivery systems of known pharmaceutical ingredients for given therapeutic indications, reducing the risk of failure to complete the development of such product candidates.

Rectogesic™ - USA

In July 2006, the Food and Drug Administration (FDA) granted Rectogesic™ (Cellegesic in the US) "approvable" status in the US, conditional upon a further clinical trial being successfully conducted. As a result of acquiring substantially all the remaining worldwide rights to Rectogesic™ from Cellegy Pharmaceuticals Inc in late 2006, we are now planning this final confirmatory study. Upon successful completion of the trial, the results would be submitted to the FDA with a view to pursuing full US approval.

Tostran™ - USA

In the US, the FDA has previously deemed Tostran™ (Fortigel in the US) to be "not approvable". However, the FDA has now provided Special Protocol Assessment (SPA) regarding a potential further clinical trial which, if successfully concluded, could lead to approval of this product. As a result of acquiring substantially all the remaining worldwide rights to Tostran™ from Cellegy Pharmaceuticals Inc in late 2006, we are now planning this further clinical study. Upon successful completion of the trial, the results would be submitted to the FDA with a view to pursuing full US approval.

Rapinyl™

During the year, Rapinyl™ was submitted for approval in the EU using the Decentralised Procedure (DCP). Whilst it is too early to predict the precise outcome of this regulatory review with certainty, we remain confident in the prospects for this patient-friendly formulation of fentanyl, a long-established opioid drug for the management of sudden surges of pain (referred to as breakthrough pain) often experienced by patients suffering from cancer. Should this drug be approved, we anticipate that it could become ProStrakan's largest selling product within the EU and we are planning for its launch from the end of the current year and into early 2008, depending on the timing of issuance of national licences.

Sancuso™

Sancuso™ is a novel transdermal patch containing 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. During the year we obtained positive results from the pivotal Phase III programme on Sancuso in patients undergoing multi-day chemotherapy.

The study met its primary efficacy endpoint, demonstrating that a single application of the Sancuso™ patch prevented nausea and vomiting over the course of multi-day chemotherapy with efficacy comparable to repeat daily doses of oral granisetron. The safety profile for Sancuso™ shows no new or unexpected adverse events resulting from the transdermal delivery of granisetron compared to oral delivery. In particular, Sancuso™ was well tolerated at the application site. Based on these results, ProStrakan expects to file regulatory submissions for Sancuso™ in the US and throughout the EU in the current year.

Droperidol

Droperidol is a branded injectable drug primarily indicated for the treatment of post-operative nausea and vomiting (PONV) in hospitals. Droperidol has been on the market in certain countries for many years. In order to enable us to market this product more widely, we submitted Droperidol (to be branded Xomolix in some countries) for approval in the EU using the Decentralised Procedure. We currently await the outcome of that regulatory review and are planning for the launch of this product in additional markets from early next year.

Testosterone Glucoside (TG)

Testosterone-glucoside is a patented molecule being developed as an oral testosterone replacement therapy for hypogonadal men. The target is to use a testosterone pro-drug to provide oral testosterone replacement whilst avoiding high systemic testosterone exposure. This project could offer significant commercial opportunities for an oral testosterone replacement therapy which offers patients the prospect of a safe and more convenient mode of administration than the current principal methods of gels, injections, patches or buccal tablets.

Topical Nitric Oxide (TNO)

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. ProStrakan's TNO technology gets around this problem by releasing nitric oxide at the time of topical application and through subsequent interaction with the nail. This project is available for out-licensing.

Oestradiol glucoside (E2G)

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. This programme now has the potential to be taken forward by Galapagos NV (concluded as part of the disposal of our Discovery unit to Galapagos) whereby Galapagos has received an option to develop and enter into an exclusive worldwide licence for this programme.

Topical anti-androgen

Our topical non-steroidal anti-androgen formulation is for the treatment of alopecia, including male pattern baldness. Existing therapies, include topical and oral products, can have limited efficacy. This project is available for out-licensing.

Trimegestone patch

This product candidate is a transdermal patch formulation of trimegestone (a progestin) intended for use as a female contraceptive, with or without an oestrogen, with potential also in HRT. Last year we announced that we had reached an agreement with Duramed Pharmaceuticals Inc in relation to this product candidate although, following a portfolio review, Duramed has now decided not to take this programme forward and all rights have reverted to us. This product is available for out-licensing.

Other Research activities

Earlier in 2006, prior to the sale of the Discovery unit, ProStrakan entered into two separate licensing agreements. The first, with Amgen, was for the programme associated with compounds addressing renal disease; the second, with Novartis, related to novel antibody approaches to bone disease. These agreements went a long way to underscoring the quality of the science that this unit was producing. Although the Company has a continuing financial interest in these two programmes as it will receive 75% of all future milestones and royalties – and more generally through an earn-out mechanism it has a financial interest relating to all the other programmes – the Company does not intend to invest further in such early-stage programmes in the near future. One of the more promising programmes, to address cachexia, was the subject of a separate agreement with Galapagos whereby it will take this programme forward and, assuming that the programme reaches proof of concept stage in humans, the Company has a right of first refusal on defined terms to re-licence this programme back. No financial contribution is required of the Company for this programme until such time.

People

ProStrakan has a dedicated workforce that brings many disparate skills to bear in growing and developing the Company. Sales and marketing, drug development and associated clinical and regulatory activity, business development, support services and administration are all essential skills and are being demonstrated in action every day. We thank all of our employees for their contribution to the very considerable progress that has been made during the year.

After 6 years on the Board, Michael Bennett stepped down as a non-executive director at the conclusion of our last AGM. The Board would like to thank him for his considerable contribution to the development of the Company over this time.

Outlook

2006 has been a transforming year for ProStrakan, with the Company having been substantially repositioned to focus on the regulatory approval and global commercialisation of its late stage product portfolio. All four lead products, each of which we believe has sales potential in excess of \$100m, made progress towards market launch during the year and we shall be continuing the regulatory process for each during 2007, with revenue contributions from these products expected to climb from the second half of this year and during 2008.

With the divestment of the Company's Discovery unit having also been successfully completed during 2006, delivering substantial savings in cash burn, as well as the financing facility separately announced today, ProStrakan is now well positioned to achieve its objective of creating a sustainable, rapidly growing and profitable specialty pharmaceutical company.

Financial review

Results of operations

Following completion of the sale of our Discovery unit, ProSkelia, the results of that unit for the year to date of disposal and associated profit/loss on sale are shown as discontinued operations. The income statement, statement of changes in equity, cash flow statement and related notes for the year ended 31 December 2006 are subject to completion of the audit and may also change should an adjusting event occur before the approval of the Annual Report, expected to be in late April.

Figures in brackets refer to the results for the comparative year of 2005 on a like-for-like IFRS basis.

Revenue

Total revenue for the year was £38.5 million (£31.5 million), an increase of 22%. Of this total, £33.6 million (£31.1 million) related to sales of pharmaceutical products, a growth of 8% with the balance representing royalty, licensing or other income. Excluding Sandoglobulin, a product for immunodeficiency for which our distribution agreement expired, in accordance with its terms, in June 2005, the comparative figure for 2005 would have been £27.4 million and the growth in product sales on a like-for-like basis is therefore 23%.

Sales of our key products were as follows:

Product	Sales for year to 31/12/06 (£m)	Sales for year to 31/12/05 (£m)	Growth
Adcal D3™	13.0	10.1	+29%
Rectogesic™	1.8	0.6	+207%
Tostran™	0.2	0.02	+957%
Droperidol	3.6	3.3	+9%
Isotard	4.6	4.2	+11%
Tebetane	3.2	3.2	-%

In other revenues of £4.9 million (£0.4 million), licensing income accounted for £4.7 million (£0.3 million). This income arises from a number of transactions completed during the course of the year of which the largest elements are (i) the partial recognition of certain up-front payments and a first milestone received by our Discovery unit prior to its disposal and (ii) the out-licensing of Zindaclin™. The balance of the remaining amounts of the up-front payments from (i) above are expected to be recognised in 2007 (c. £2.7 million) and 2008 (c. £0.4 million) respectively.

Cost of sales

Cost of sales represents (i) the cost of products sold (ii) 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 and (iii) payments due from licensing income received. The total gross margin percentage after allowing for cost of sales was 59.8% (52.6%). 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, including impairment charges, recorded in cost of sales was £2.4 million (£2.3 million). The cash gross margin from product sales alone increased to 66.5% (60.0%) of product sales. This increase in gross margin arose from changes in the mix of products sold towards ones with higher gross margins and, in certain instances, towards products where we have been able to buy out a royalty stream or otherwise negotiate more advantageous terms.

Operating expenses

Distribution costs in the year were £21.5 million (£19.8 million). This increase resulted in part from preparing our commercial infrastructure for the roll out of our new pan-European products and in part from an acquisition made in the prior year (so that the sales and marketing expenses of that acquired company were included for only part of the prior year).

Research and development expenses in the year were £10.7 million (£8.7 million). Both these figures exclude the costs of our Discovery unit which are separately shown within discontinued operations. These costs relate primarily to employee costs and the costs of undertaking clinical and other trials and other regulatory support activities and so may vary from year to year. The major non-employee costs in the year under review related to the Phase III trial undertaken on Sancuso™ and the Phase IIIb/IV Times 2 trial for Tostran™.

General and administrative expenses were £7.9 million (£7.8 million). The increase of less than 1% represents a focus on keeping overheads down so as to permit our cash spend to be used in expanding our commercial operations or investing in research and development.

The impairment of intangibles charge of £1.3 million (£Nil), as noted in our interim statement, is a non-cash charge that arose on the disposition by the Company of its interest in Siklos, a product for sickle cell disease.

Discontinued operations

The figures for discontinued operations relate to the Discovery unit located near Paris which was sold to Galapagos NV in December 2006. The amount of £12.3 million (£16.6 million) is made up from the operating loss during the year of £10.0 million (£16.6 million) and the loss on sale of £2.3 million (£Nil).

Intangible assets

The increase in intangible assets to £40.0 million from £38.6 million primarily represents the acquisition of additional rights to Tostran™ and Rectogesic™ from Cellegy Pharmaceuticals Inc, provision for an additional milestone for Rapinyl™ and Times 2 study costs on Tostran™, all as offset by the annual amortisation charge.

Cashflow

During 2006, cash consumed in operations was £18.6 million (£27.8 million). The reduction resulted from an increased contribution from our commercial activities and a reduced level of spending on research and development. Investing activities consumed a further £10.6 million (£6.1 million). During the course of the year financing activities raised net cash of £11.0 million (£39.0 million) primarily from the placing of shares undertaken in July. As at the end of the year, cash on hand was £20.5 million (£38.7 million).

Consolidated balance sheet (unaudited)

	31 December 2006 £'000	31 December 2005 £'000
Assets		
Non-current assets		
Investments	6,316	-
Intangible assets	39,979	38,642
Property, plant and equipment	1,251	6,381
Research and development tax credits receivable	766	6,252
	<u>48,312</u>	<u>51,275</u>
Current assets		
Inventories	3,697	3,463
Trade and other receivables	9,168	6,412
Income tax receivable	96	233
Research and development tax credits receivable	1,049	1,435
Cash and cash equivalents	20,513	38,730
	<u>34,523</u>	<u>50,273</u>
Liabilities		
Current liabilities		
Trade and other payables	24,880	19,147
Provisions for other liabilities and charges	101	2,143
	<u>24,981</u>	<u>21,290</u>
Net current assets	<u>9,542</u>	<u>28,983</u>
Non-current liabilities		
Retirement benefit obligations	32	323
Other non-current liabilities	8,937	8,517
Provisions for other liabilities and charges	40	2,103
	<u>9,009</u>	<u>10,943</u>
Net assets	<u>48,845</u>	<u>69,315</u>
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	169,565	158,786
Other reserves	76,252	77,911
Cumulative translation adjustments	-	-
Retained earnings	(196,972)	(167,382)
Total equity	<u>48,845</u>	<u>69,315</u>

Consolidated income statement (unaudited)

	Year ended 31 December 2006 £'000	Restated Year ended 31 December 2005 £'000
Revenue	38,459	31,508
Cost of goods sold	(15,445)	(14,949)
Gross profit	23,014	16,559
Distribution costs	(21,455)	(19,778)
Research and development	(10,700)	(8,652)
Administrative expenses	(7,853)	(7,794)
Impairment of product rights not launched	(1,274)	-
Other (losses) / gains	(23)	104
Operating loss	(18,291)	(19,561)
Finance income	1,007	1,445
Finance cost	(33)	(42)
Loss before income tax	(17,317)	(18,158)
Taxation	9	975
Loss for the year from continuing activities Discontinued operations	(17,308)	(17,183)
Loss for the year from discontinued activities ¹	(12,282)	(16,582)
Attributable to equity holders of the company	(29,590)	(33,765)

¹ Discontinued operations – this refers our Discovery unit sold to Galapagos NV in December 2006

Earnings per share for loss attributable to the equity holders of the Company during the year
(expressed in pence per share)

- basic	(15.4)	(21.5)
- diluted	(14.8)	(20.7)

Statement of changes in equity (unaudited)

	Share capital	Fair value and other Reserves	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
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 the year	-	(1,127)	(33,765)	(34,892)
Employee share option scheme:				
- value of services provided	-	2,133	-	2,133
- proceeds from shares issued	130	-	-	130
Other share based payments	32	-	-	32
Issue of share capital	35,533	-	-	35,533
Purchase of own shares by ESOP	(200)	-	-	(200)
Sale of own shares by ESOP	630	-	(2)	628
Revaluation of owned shares held by ESOP	13	-	(13)	-
	<u>36,138</u>	<u>2,133</u>	<u>(15)</u>	<u>38,256</u>
Balance at 31 December 2005	158,786	77,911	(167,382)	69,315
Currency translation differences – being net income recognised directly in equity	-	(2,759)	-	(2,759)
Loss for the year	-	-	(29,590)	(29,590)
Total recognised income for the year	-	(2,759)	(29,590)	(32,349)
Employee share option scheme:				
- value of services provided	-	933	-	933
- proceeds from shares issued	-	-	-	-
Other share based payments	-	250	-	250
Issue of share capital	10,779	-	-	10,779
Shares to be issued – previous year business combinations	-	(83)	-	(83)
	<u>10,779</u>	<u>1,100</u>	<u>-</u>	<u>11,879</u>
Balance at 31 December 2006	169,565	76,252	(196,972)	48,845

Consolidated cash flow statement (unaudited)

	Year ended 31 December 2006 £'000	Restated Year ended 31 December 2005 £'000
Cash flows from operating activities		
Continuing activities	(10,111)	(17,703)
Discontinued activities	(10,377)	(11,909)
Cash used in operations	(20,488)	(29,612)
Continuing activities:		
Finance income	1,007	1,412
Finance cost	(33)	(42)
R&D tax credits received	-	473
Income tax paid	134	(62)
	1,108	1,781
Discontinued activities:		
Cash flows from other operating activities	769	62
Net cash used in operating activities	(18,611)	(27,769)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(2,133)
Sale of investment (acquired in business combination)	-	93
Purchases of intangible assets	(11,380)	(2,601)
Purchases of property, plant and equipment (PPE)	(211)	(1,275)
Proceeds from sale of PPE	1,127	13
Cash flows used in continuing operations - investing activities	(10,464)	(5,903)
Cash flows relating to discontinued operations - disposal proceeds net of cash sold with business	(121)	-
Cash flows relating to discontinued operations - other investing activities	(64)	(173)
Net cash generated by investing activities	(10,649)	(6,076)
Cash flows from financing activities		
Net proceeds of accounts receivable factoring	-	2,899
Proceeds from issuance of ordinary shares (net of own shares purchased by ESOP)	11,029	35,462
Proceeds from sale of own shares by ESOP	-	630
Net cash generated by financing activities	11,029	38,991
Net (decrease) / increase in cash and bank overdrafts	(18,231)	5,146
Cash and bank overdrafts at the beginning of the year	38,730	34,028
Exchange gains / (losses) on cash and bank overdrafts	14	(444)
Cash and bank overdrafts at the end of the year	20,513	38,730

Selected notes to the financial information (unaudited)

1. Presentation of financial statements

The financial information set out in this unaudited preliminary statement does not comprise Prostrakan Group Plc's statutory accounts within the meaning of section 240(5) of the Companies Act 1985. The statutory accounts of Prostrakan Group Plc for the year ended 31 December 2006, currently unaudited and to be published in due course, will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary statement and will be delivered to the Registrar of Companies, in due course and will also be sent to shareholders.

Whilst the financial information included in this unaudited preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The company expects to publish full financial statements that comply with IFRSs in May 2007.

The financial information set out on this unaudited preliminary statement includes comparative figures that have been prepared on the same basis. The Auditors have reported on the financial statements for the year ended 31 December 2005 which were prepared under IFRSs. Their report was unqualified and did not contain any statements under s237 (2) or (3) Companies Act 1985.

This preliminary statement was approved by a Committee of the Board on 27 March 2007.

2. Statement of Accounting policies

There have been no changes to the accounting policies during the year ended 31 December 2006.

3. Intangible assets

During the year all in-process R&D (with a holding value of £1.8 million) was written down to zero (disclosed within discontinued operations); £0.4 million of product rights, acquired through business combinations in Spain and Germany, were written down (within cost of goods sold); and £1.3 million relating to the disposal of Siklos was expensed as an impairment.

4. Discontinued Operations

The Proskelia Discovery unit was sold to Galagapos NV on 22 December 2006. Operating results for the full year have been split into continuing and discontinued activities, as have the comparative figures for 2005. The total cost relating to discontinued activities of £12.3 million (£16.6 million) reflects the loss for the period of £10.0 million (£16.6 million) and a loss on disposal of £2.3 million (£nil).

5. Earnings per share

The calculation of basic earnings per ordinary share is based on the loss of £29,590,527 (£33,765,176) and on 192,410,974 ordinary shares (157,000,906) being the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per ordinary share is based on the loss of £29,590,527 (£33,765,176) and on 199,494,944 ordinary shares (163,379,217) being the weighted average number of ordinary shares in issue.