

Press Release

26 May 2005

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PROSTRAKAN GROUP plc

ANNOUNCEMENT OF INDICATIVE VALUE RANGE OF £160 MILLION TO £190 MILLION

ProStrakan Group plc ("ProStrakan"), the emerging specialty pharmaceutical company, announces its value range in connection with its proposed global offering of its shares to raise gross proceeds of circa £50 million (the "Global Offer"), and proposed flotation on the London Stock Exchange. The indicative value range on a fully diluted basis is set between approximately £160 million to £190 million prior to the fundraising of £50 million. This implies a valuation of £210 million to £240 million including funds raised. The prospectus will be published shortly.

Highlights of the Global Offer

- The principal purposes of the Global Offer are: (i) to raise equity finance to broaden the geographic scope and scale of the Group's operations through investing in the growth or development of identified existing products and launching new products; (ii) to fund and bring forward product candidates in clinical development; and (iii) the Group may also use a portion of the proceeds of the Global Offer for the acquisition of additional products, businesses, companies, technologies or other assets that fit within, or are complementary to, the Group's strategic objectives.
- Under the Global Offer, the shares will be offered to institutional investors in the UK and elsewhere outside the United States and to qualified institutional buyers only in reliance on an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act of 1933.
- Morgan Stanley & Co. International Limited is acting as Sponsor to the listing. Morgan Stanley Securities Limited is acting as the Sole Book runner and Lead

Manager to the Global Offer. Credit Suisse First Boston and Code Securities are acting as Co-Lead Managers to the Global Offer.

- In connection with the Global Offer, ProStrakan is expected to grant Morgan Stanley Securities Limited an Over-allotment Option for the purpose of meeting over-allotments, if any, and to cover short positions resulting from stabilisation actions undertaken by Morgan Stanley.

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No offer or invitation to acquire shares in ProStrakan plc is being made by or in connection with this announcement. Any such offer will be made solely by means of a prospectus published or to be published in due course and any acquisition of shares should be made solely on the basis of the information contained in such document and any supplements thereto.

The value of shares can go down as well as up. Past performance is not a guide to future performance. Persons needing advice should consult a professional adviser.

Certain statements contained in this announcement are or may constitute "forward looking statements". Such forward looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Such risks, uncertainties and other factors include, among others, dependency on key customers, difficulties in forecasting demand, dependency on key suppliers, delays in the introduction of new products, decreases in demand for the Group's products, the Company's failure to introduce new products and to implement new techniques and general economic and business conditions, particularly in the United Kingdom and the United States. These forward looking statements speak only as at the date of this announcement and the Company does not undertake any obligation to update or revise publicly any forward looking statement, whether as a result of new information, future events or otherwise.

STABILISATION/ FSA

FURTHER INFORMATION

ProStrakan's key competitive strengths:

Expanding commercial operations in the UK and Continental Europe

- ProStrakan has built a strong base business of 17 principal marketed products through a combination of organic growth, acquisition and in-licensing activity.
- The Group has an established and growing specialty sales and marketing organisation, principally in the UK, France, Spain and Germany. This provides a strong channel for growing sales of existing products and for new product launches.
- The directors believe that, together, these provide the Group with a strong foundation for further value creation and an important source of cash flows to support mid-to long-term growth.

New product flow

- ProStrakan has a proven track record of acquiring and commercialising new products through a combination of corporate acquisitions and product in-licensing.
- The Group currently has a number of products in respect of which it has applied for or obtained or is intending to seek marketing authorisations, but has not commenced marketing, including Tostrex for the treatment of male hypogonadism, Rectogesic for treatment of pain associated with chronic anal fissures and Ostalis for the treatment of Osteoporosis. Rectogesic is planned to be launched in June 2005.
- The Group's discovery and development portfolio currently comprises five products undergoing Phase II clinical trials, one undergoing a Phase I clinical trial, and a number of pre-clinical projects and discovery programs. This pipeline is supported by the Group's expertise in bone biology and medicinal and steroid chemistry.

A Strategy of Controlled Evolution

- The Directors have planned the development of the Group and the commercialisation of its product portfolio to provide the Group with operations of sufficient scale and geographic scope to facilitate the exploitation of new products with higher expected peak sales potential than those currently marketed.

Commercialisation flexibility

- ProStrakan's commercial, development and discovery operations provide flexibility in the manner of commercialisation of its product candidates, either through the Group's own sales and marketing activities or co-marketing or out-licensing arrangements.

A European in-licensing Partner

- The Group's expanding sales and marketing organisation positions the Group as an attractive in-licensing partner for businesses that do not have the requisite skills or sales infrastructure to market their products in Europe.

Experienced management team

- The Group has an experienced management team with a proven track record in building pharmaceutical businesses and integrating acquisitions. The management team has demonstrated its ability to add value through organic growth as well as through acquisitions and product in-licensing activities. The Group's management team takes a disciplined portfolio management approach and has, and will continue to, selectively out-license appropriate product candidates. The Group has a fully established management organisation for all key aspects of running and growing an emerging pharmaceutical company.

Growth Strategy

ProStrakan's core strategy is to build an international specialty pharmaceutical company that is cash-generative, profitable and sustainable. In order to achieve the Group's strategy, ProStrakan's Directors believe that a number of key elements are necessary: substantial commercial operations in selected major geographical markets targeting specialist physicians; attractive products with growth potential of a scale appropriate to the Group's resources; and the means of bringing new products to market. Such new products may come from the Group's pipeline of product candidates or may be in-licensed or acquired from third parties.

In view of its current marketing approach and its expertise in bone biology and medicinal and steroid chemistry at the Group's discovery facility at Romainville, Paris, the Group's therapeutic focus will continue to be on areas relating the ageing male and ageing female and certain areas of oncology. The Group may, however, selectively take advantage of opportunities in other therapeutic areas where the Directors consider appropriate.

Business Strategy

In pursuing its core strategy, the Group will actively continue to balance its risk and reward profile to reflect the stage of development and planned evolution of its business. The Directors plan that the risk and reward profile will evolve over time:

- **Firstly**, the Group's currently marketed products and principal products in registration are for indications typically in niche or specialty markets. The Directors have planned this mix of lower risk products and products in registration such that together they offer the Group the potential to grow revenues quickly with limited, yet meaningful, overall peak sales. These products typically have limited or no patent protection (but in certain instances are considered by ProStrakan's Directors to address specific market niches with a lesser amount of competition) and the Group in many instances owns only limited geographical rights to market these products. The Directors believe that there is a commensurately lower risk of failure to achieve planned revenues;
- **Secondly**, the Group's product candidates in clinical development typically 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 which, the Directors believe, reduces the risk of failure to complete the development of such product candidates
- **Thirdly**, the Group's pre-clinical projects and discovery programs typically offer the prospect of aggregate potential peak sales that are materially higher than those products currently in clinical development. The risk associated with developing these product candidates is necessarily higher. However, the Group has considerable depth of expertise in the relevant therapeutic areas; and
- **Fourthly**, the Group has an active program of in-licensing products and product candidates and of acquiring companies that seeks to augment the Group's product pipeline and to underpin the growth of its commercial operations. The Directors believe that this program balances the risk arising from the Group's own discovery and development pipeline.

To achieve its strategy, the Group intends to:

Continue to build a pan-European sales and marketing organisation. A key priority will be the continued development of its European sales and marketing infrastructure through organic and strategic activity. Near-term emphasis will be placed on expanding its presence in key European markets, particularly Germany and Italy.

Use product in-licensing and acquisitions to augment the Group's portfolio of marketed products and product candidates. In addition to driving growth through its own development pipeline, the Group also has an active in-licensing approach for products, both across Europe (as evidenced by Tostrex and Rectogesic) and also for individual countries, as well as an active approach towards mergers and acquisitions.

Continue selectively to build its research and development pipeline. The Group will continue to invest significant sums in research and development, as the Directors believe that this will be an important driver of future sustainability and growth for the Group. Through disciplined management and allocation of resources as well as continuous and rigorous review of its research and development projects, the Group will aim to maximise the value of its research and development activities. On a selective basis, the Group will also look to out-license certain product candidates.

Expand geographically in the mid-term. Whilst the Group's current focus is to grow its business in Europe and to out-license all Japanese rights to its products, in the medium term, the Group intends to enter the US market either organically or through acquisition. For non-key territories in respect of which the Group has product rights, it is envisaged that the Group will pursue commercialisation through out-licensing and distribution arrangements with third parties.

Marketed Products

The Group has a diverse and extensive portfolio of marketed products, of which Adcal D₃, Isotard XL, Tebetane and Droperidol had the largest in-market sales in 2004.

Adcal D₃ Adcal D₃ is a branded 600mg calcium and vitamin D₃ oral supplement, which is used as an adjunct to specific therapy for the treatment of osteoporosis. It is marketed by the Group in the UK only, where it is the Group's largest product by sales. Adcal D₃ achieved approximately £6.8 million sales in 2004 (2003: £3.7 million).

Isotard XL Isotard XL is a branded cardio-vascular oral drug for the treatment of angina and is marketed in the UK only, achieving approximately £4.3 million of sales in 2004 (2003: £3.5 million).

Tebetane Tebetane is a branded oral product used to treat mild benign prostatic hyperplasia. It is currently marketed in Spain, where it is the Group's largest product by sales. Tebetane achieved £3.2 million of in-market sales in 2004 (2003: £3.2 million)

Droperidol Droperidol is a branded injectable drug which is primarily marketed for the treatment of post-operative nausea and vomiting (PONV) in hospitals. It is mainly marketed in France but is also sold in certain other European territories. Droperidol achieved approximately £2.8 million of in-market sales in 2004 (2003: £2.3 million).

Principal Products in Registration

Tostrex Tostrex is a topical testosterone gel indicated for the treatment of male hypogonadism. Male hypogonadism (low testosterone levels in men) commonly affects men from middle-age onwards.

The Directors believe that the market for testosterone products in Europe is undeveloped as most clinicians do not measure testosterone levels routinely. They consider that Tostrex can

be well positioned to benefit from growth in the market in Europe and will have advantages over existing products.

In December 2004, Tostrex obtained marketing authorisation in Sweden. Further development work on the product is being undertaken and an application for a variation to the marketing authorisation is intended to be submitted in May/June 2005. Subject to the approval of the variation by the Swedish regulatory authority, the Group intends to apply for marketing authorisation under the mutual recognition procedure in all other EU territories, and expects to commence marketing Tostrex in Sweden, later this year. Marketing in certain other EU territories is expected to follow in the second half of 2006 subject to the additional market authorisations being received.

Rectogesic

Rectogesic is a topical glyceryl trinitrate ointment indicated for the treatment of pain associated with chronic anal fissures.

It is estimated that at any time between 0.5 million and 0.8 million people in Europe suffer anal fissures, of whom 25 per cent. are likely to be chronic, with the balance acute.

In August 2004, Rectogesic obtained UK marketing authorisation. The Group intends to file applications for marketing authorisation under the mutual recognition procedure in all other EU territories. It is currently envisaged that the Group will commence marketing Rectogesic in the UK during June 2005. Subject to obtaining marketing authorisations for the relevant territories, it is currently envisaged that the Group will commence marketing Rectogesic in key EU territories in 2006.

Ostalis

Ostalis is a branded oral bisphosphonate product used to treat osteoporosis in men and post-menopausal women.

Subject to obtaining a marketing authorisation, it is currently envisaged that the Group will market Ostalis alongside Adcal D₃ in the UK. In view of a legal challenge to UK marketing authorisation applications submitted by the Group's licensor partner (and two other generic manufacturing companies), there is no guarantee that a UK marketing authorisation will be granted in respect of this product.

The Directors believe that the UK bisphosphonate market will continue to grow and believe that there is a significant opportunity for Ostalis as a branded generic entering this market.

Key Product Candidates in Clinical Development

Transdermal anti-emetic patch

The product is a transdermal patch formulation of an anti-emetic drug intended for the prevention of chemotherapy-induced nausea and vomiting (CINV) in cancer patients. The patch formulation has been developed by the Group.

The Group has initiated detailed planning of the Phase III clinical program in respect of this product candidate for discussion with the FDA.

Oestradiol-glucoside

The product candidate is intended for use as an oral therapy in the treatment of symptoms of the female menopause.

The Group has completed a Phase IIa clinical trial in the US. The results of that limited study indicated this product candidate could be clinically effective in the management of post-menopausal symptoms in women. The Group intends to commence planning and designing a Phase II study later this year.

Testosterone-glucoside The product candidate is intended for use as an oral therapy for male hypogonadism.

The Group has completed a single dose Phase I clinical trial with this product candidate and is conducting a second Phase I study to evaluate the absorption level of testosterone-glucoside at different areas of the gastro-intestinal tract.

It is currently envisaged that the transdermal anti-emetic patch, the oestradiol-glucoside and the testosterone-glucoside product candidates would be marketed by the Group in the EU and the US and a partner would be sought for Japan and elsewhere.

TNO This product candidate is intended for use as topical treatment for onychomycosis, a fungal infection of the nail and nail bed.

The Group has completed a Phase IIa clinical trial. That trial indicated that TNO is effective in inhibiting fungal growth at least for the duration of the treatment.

It is currently envisaged that the Group will seek to enter into partnering or out-licensing arrangements in relation to the further development and commercialisation of the TNO product candidate.