

# Press Release

**ProStrakan Group plc**

## **Preliminary Results for the Year Ended 31 December 2008**

**Galashiels, Scotland, 18 March 2009:** ProStrakan Group plc (LSE: PSK), the international specialty pharmaceutical company, today announces its unaudited Preliminary Results for the year ended 31 December 2008.

### **FINANCIAL HIGHLIGHTS**

- Strong revenue growth
  - Product sales up 32% to £53.8m (2007: £40.9m)
  - Total revenues up 23% to £56.1m (2007:£45.6m)
- Operating loss from continuing operations (pre-exceptional items) £17.2m (2007: £17.7m)
- Pre-exceptionals loss before tax of £21.3m (2007: £17.6m)
- Post-exceptionals loss before tax of £25.2m (2007: £17.6m)
- Retained loss (including discontinued operations) of £18.8m pre-exceptionals (2007: £17.3m) and £25.1m post exceptionals (2007: £17.3m)
- Exceptional costs of £6.3m (2007: nil) incurred during the year
- Cash outflow from continuing operating activities £9.5m (2007: £14.7m)
- Continued strong cash position of £34.7m at 31 December 2008 (2007: £24.5m)

### **OPERATING HIGHLIGHTS**

- EU business growing strongly
  - Pan-European revenues up 69%
  - Abstral roll-out well-advanced
- Successful launch of Sancuso has established ProStrakan's US business
  - Reimbursement achieved in 75% of commercially covered lives and in 50% of Medicare covered lives
  - Sancuso prescriptions running at approx 500 patches per week and growing well
- Complementary North American rights to Abstral (Rapinyl in US) secured
- Three additional US NDA filings (Fortigel, Cellegesic, Rapinyl) planned by mid 2009

### **ANNOUNCED TODAY**

- Co-promotion deal in the US for complementary oncology support product, Gelclair
- Inlicensing of Sancuso line extension

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

“2008 proved to be an excellent year for ProStrakan. The strong sales growth from our EU business has allowed us to report revenues in line with consensus forecasts and we finished the year with a very strong cash position, maintaining our target of reaching break-even later in 2009 without the need for further fundraising. Future growth is underpinned by the approvals in 2008 of Sancuso in the US, and Abstral in the EU. These products, although early in their launch cycle, are being well received by prescribers, and we are confident that they will grow to be very significant contributors to our future growth. In addition, securing the North American rights to Abstral mid-year has given us a key additional oncology product.

“We look forward in 2009 to growing sales momentum from further EU Abstral launches, while our US business will be focusing on growing Sancuso and filing three additional NDAs in the coming months. Today’s announcements of inlicensing a line extension formulation of Sancuso, together with a co-promotion deal for Gelclair, an approved oncology supportive care product, are clear demonstrations of our intent to grow a successful US business to sit alongside our rapidly-growing EU business.”

### **Notes to editors**

There will be a presentation and conference call for investment analysts today (Wednesday 18 March) at 9.30am. Contact Mo Noonan at Financial Dynamics on +44 (0)20 7269 7116 for details.

For more information on this announcement, please contact:

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## **ProStrakan Group plc Preliminary Results 2008**

### **Introduction**

2008 was an important year for ProStrakan, establishing itself as an international specialty pharmaceutical company. The US approval of Sancuso represented a major milestone for the Group, allowing us to launch our first US product in the world's largest pharmaceutical market. Our European business continued to thrive on the basis of excellent revenue growth, supplemented by further EU approvals and product launches, both during 2008 and since the year-end.

As a result, ProStrakan is making significant progress in its strategic development and maintains its target of achieving break-even later in 2009.

Total revenues for 2008 increased by 23% to £56.1m (2007: £45.6m) as a result of increased product sales and continuing outlicensing deals. Product sales grew by 32% to £53.8m (2007: £40.9m), including growth in our pan-European products of 69% from £8.3m in 2007 to £14.1m in 2008. We grew sales of Adcal-D3, our UK market-leading product, by a further 17% in 2008 to £17.3m (2007: £14.8m). The stronger Euro accounted for 9% of total product sales growth and 17% of pan-European product sales growth.

There were a number of one-off exceptional costs, totalling £6.3m, which were incurred by the Group during 2008. These comprised: a £2.4m non-cash write-off relating to expected future milestone payments, resulting from the sale of the Group's Discovery Unit in 2006, that the Board anticipates will not now materialise; a £2.2m non-cash impairment charge relating to the Times II Phase IV Tostran study, and a £1.7m loss on the complete sale of shares in Galapagos NV, classed as available-for-sale financial assets (as was announced at the time of the 2008 Interim Results). These exceptional items are explained further in Note 5.

Consequently, despite the Group's increased turnover, the post-exceptional pre-tax loss widened to £25.2m (2007: £17.6m). Before the exceptional costs detailed above are taken into account, the loss before tax was £21.3m (2007: £17.6m). This reflected increased interest costs due to the full year effect of our borrowings and additional drawdowns; the effect of the movement of £2.4m in fair value of warrants issued to Lenders - 2008 charge £0.8m (2007: credit £1.6m); plus the additional costs incurred through our US expansion that could not be offset in the year by sales of Sancuso after a longer than anticipated US approval process.

Following the draw down during the year of a further £17m from our secured debt facility, the total amount drawn down to date is £37m. The Group ended the year with a strong cash position of £34.7m with a further £13m available under our debt facility.

### **Products**

**Sancuso** is a transdermal patch that delivers granisetron, an established 5-HT<sub>3</sub> 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 received a marketing authorisation from the US Food and Drug Administration (FDA) in September 2008 and was launched in November 2008. While this was behind the timescales originally envisaged, this still allowed our 75-strong US sales force the opportunity to begin promoting this product in the final weeks of 2008.

As our first commercialised US medicine, Sancuso is an important strategic product for ProStrakan and early sales signs are encouraging, with prescriptions written averaging approximately 500 patches per week by early March and displaying good growth. Furthermore, we have achieved initial reimbursement with 87% of our target private health care providers, who represent 85% of the commercially covered lives in the US. We have further achieved initial reimbursement for around 50% of the covered lives of the US Government-sponsored Medicare health plans. In addition, Sancuso has now been accepted in a number of key formularies and overall indications are that the product has been well-accepted by the US oncology community.

Elsewhere, Sancuso has now been approved by the regulatory authority in South Korea, where we have outlicensed this product to LG Life Sciences. LG plan to launch Sancuso in South Korea in late 2009.

### **Gelclair**

We have announced separately today the signing of an exclusive co-promotion agreement with EKR Therapeutics Inc. in the US for Gelclair, a mouth gel indicated for the management and relief of pain associated with Oral Mucositis which can be a side-effect of chemotherapy. The marketing of this product alongside Sancuso will enhance ProStrakan's position as a provider of oncology support in the US.

**Abstral** (formerly branded as Rapinyl) is a new formulation of fentanyl, a long-established opioid used for the management of episodes of severe breakthrough pain experienced by cancer patients who are already receiving opioid analgesics for their chronic pain. In June 2008 the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) issued a positive opinion recommending approval of Abstral across the European Union.

In August, Abstral was launched in Sweden, with launches in the UK and Germany following in January 2009. We have also now received marketing authorisations in a number of other European countries, including both France and Spain, where we plan to launch Abstral in H2 2009.

Initial indications for Abstral sales are encouraging, with re-orders already being placed in both the UK and Germany after initial wholesaler pipeline fill.

In addition, Gedeon Richter Limited, to whom we outlicensed Abstral in Central and Eastern Europe, has this month received a marketing authorisation for this product in Hungary, with further approvals expected shortly. This approval has triggered a milestone payment from Gedeon Richter.

**Tostran** is a transdermal testosterone gel that utilises a proprietary metered dose delivery system for testosterone replacement therapy in male hypogonadism. Its European rollout is complete and revenues grew by 149% in 2008. In Sweden, this product commands a 40% market share while in Spain its market share is 18%. Part of the product rights capitalised in respect of Tostran relate to the Times II Phase IV study into the effects of Testosterone Replacement Therapy on insulin resistance in hypogonadal males with Type 2 Diabetes or Metabolic Syndrome. Following its completion, the Board takes the view

that this study has not added the value in Europe to the extent previously attributed to it and consequently a £2.2m non-cash impairment charge has been recorded.

**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 86% in 2008.

**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 was already marketed in a number of European countries and, following further EU approvals in 2007, has now been launched in Germany. Total revenues grew by 40% in 2008.

**Adcal-D3** is a branded calcium and vitamin D3 oral supplement, used as an adjunct to specific therapy for the treatment of osteoporosis and is the UK market leader with a 41% cash market share. Adcal-D3 remains ProStrakan's best-selling medicine. Our policy of line extensions has seen new formulations in this product family being launched in recent years and in 2008 total brand revenues grew by a further 17%.

## **Product Development**

**Sancuso** has now been outlicensed in a total of 72 countries worldwide. In Japan, where this product has been outlicensed to Solasia Pharma KK (formerly known as JapanBridge) and where ProStrakan was granted a patent for Sancuso in June 2008, Solasia has initiated a Phase I study in Japanese volunteers. Solasia has also commenced regulatory and clinical development work on Sancuso in China where it has engaged Excel PharmaStudies, China's largest clinical research organisation, to assist an in-house team in preparing and carrying out clinical trials for this product.

The European Marketing Authorisation for Sancuso was filed in July 2007. In accordance with EU legislation, we have submitted a referral request to CHMP to allow further discussion. This request is currently being considered by the European Commission. As a result, ProStrakan is unable to predict the timescales for European approval of Sancuso.

We are announcing today the inlicensing of the rights to a line extension to Sancuso from Abeille Pharmaceuticals Inc. ("Abeille"). This product is a smaller transdermal granisetron patch formulation that will potentially allow the patch to deliver an equivalent amount of the drug more efficiently from its smaller surface area. At this stage in its development, this product has completed Phase I clinical trials in the US and benefits from the protection of the original Sancuso patents, which are granted in major EU markets and Japan, and are in advanced stages of negotiation in the US. This exclusive licence agreement will result in undisclosed upfront and future milestone payments by ProStrakan to Abeille. If, as is hoped, this relationship allows the development of additional intellectual property, a small royalty will become payable.

ProStrakan inlicensed the North American rights for **Rapinyl** (branded Abstral in the EU) from Orexo AB in July 2008. Since that time, enrolment in Rapinyl's Phase III US programme has been completed and ProStrakan plans to file a New Drug Application (NDA) with the US FDA mid 2009. Subject to receipt of approval by the US FDA, ProStrakan plans to market Rapinyl alongside its other oncology support product, Sancuso. ProStrakan has outlicensed Rapinyl in Canada to Paladin Labs Inc.

**Fortigel** (branded as Tostran in Europe) and **Cellegesic** (branded as Rectogesic in Europe) have each successfully completed their US Phase III trials and ProStrakan plans to re-file these products with the FDA by mid 2009.

## **Business Partnering**

ProStrakan's strategy is to capitalise on its high value medicines in non-core territories through negotiating mutually advantageous outlicensing arrangements with high quality partners who occupy strong positions in relevant markets. In this way, we will develop a lucrative ongoing revenue stream.

In 2008, we announced a number of outlicensing arrangements including the following:

- Sancuso – with Paladin Labs Inc for Canada; NewBridge Pharmaceuticals FZ LLC in the Middle East and Africa; JapanBridge (now Solasia Pharma KK) for Japan, China and parts of South East Asia
- Abstral – with Paladin Labs Inc for Canada
- Xomolix – with Torrex Chiesi for Austria, where it is being launched this month
- Tostran – with Bayer Schering Pharma for 65 territories worldwide

Since the year-end, we have further secured a licensing and distribution agreement for Sancuso with Invida Pharmaceutical Holdings PTE Ltd for Australia, Indonesia, the Philippines, Thailand and Vietnam and Invida has now filed Sancuso for approval in both Thailand and the Philippines, with further filings expected during 2009. We have also signed a licensing and distribution agreement with NewBridge Pharmaceuticals for Turkey. We plan to continue to pursue this outlicensing strategy to ensure shareholders derive maximum value from our products.

## **People**

The pace of development and growth at ProStrakan has been fast and the Board recognises that this could not be achieved without the ongoing hard work and application of the whole team at ProStrakan. On behalf of the Board and our shareholders, we thank them for their enthusiasm and dedication.

## **Outlook**

2009 has started well for ProStrakan. US sales of Sancuso are encouraging and EU product sales are strong. We have launched Abstral in the UK and Germany, with further EU launches planned for the remainder of the year. We plan to file three further products for approval by the FDA (Fortigel, Cellegesic and Rapinyl) during by mid 2009 and we have a number of further outlicensing negotiations under way.

The Board and Management of ProStrakan are sharply focused on pursuing shareholder value in all that we do and we are maintaining our target of achieving break-even towards the end of 2009, with 2010 expected to be the Company's first year of profitability.

With a strong cash position, valuable products and a sound strategy, we look forward to the remainder of 2009 with excitement and confidence.

## **Financial Review**

The financial results for the year ended 31 December 2008, prepared under the Group's accounting policies based on EU endorsed International Financial Reporting Standards, are presented below.

### **Revenue**

The Company has made further strong progress in 2008. Product sales increased by 32% to £53.8m (2007: £40.9m) including growth in our pan-European products (Tostran, Rectogesic, Droperidol/Xomolix and Abstral) of 69% from £8.3m in 2007 to £14.1m for 2008. Adcal-D3, the UK market-leading product, grew sales by 17% to £17.3m (2007: £14.8m). Other revenues, from partnering arrangements and deferred milestone payments, continued to contribute to the Group revenues by £2.3m in 2008 (2007: £4.7m). Combined with our strong product sales growth, this resulted in total revenue growth of 23% to £56.1m (2007: £45.6m).

### **Gross Margin**

The gross margin increased from £31.7m in 2007 to £36.1m in 2008. The gross margin percentage decreased from 69.5% in 2007 to 64.3% in 2008. Gross margin on product revenues decreased from 66.1% to 62.7% in 2008. The increases in the gross margin percentage on our newer products were offset by the increased Euro cost of key product, Adcal D3, sold only in the UK. The gross margin percentage has also been impacted by stock provisions and write-offs, the main part of which we reported at the half year.

### **Operating Costs & Losses**

Operating costs consisted of distribution costs of £30.7m (2007: £26.1m) and administrative expenses of £9.2m (2007: £9.3m). The increase in distribution costs reflects the ongoing investment in the US sales and marketing infrastructure together with increased European sales and marketing costs resulting from the stronger Euro.

We continue to invest in our development projects and our spend in this area in 2008 was in line with expectations at £10.6m (2007: £10.1m). This reflects the ongoing development investment in our key products, but particularly the investment in Sancuso, Cellegesic and Fortigel for the US market.

Included within other gains/(losses) is £1.7m of loss relating to the complete sale of shares in Galapagos NV which was announced at the time of the 2008 Interim Results. This resulted in a loss before interest, tax, depreciation and amortisation (EBITDA) of £16.0m against £13.7m in 2007. Depreciation and amortisation amounted to £2.8m (2007: £2.7m) and product rights impairment of £2.3m (2007:£1.3m), of which £2.2m relates to the Times II Phase IV Tostran study.

Net finance costs of £3.3m (2007: £1.5m) reflect a full year of interest payable to the Lenders along with additional drawdowns in the year.

The non-cash fair value of warrants charge for the year amounted to £0.8m against a credit of £1.6m in 2007. These warrants were issued to the Lenders in March 2007.

Pre-exceptional loss before tax amounted to £21.3m (2007: £17.6m) and post exceptional loss before tax of £25.2m (2007: £17.6m). In addition to the small tax credit of £0.1m (2007: £0.3m credit) the Group recognised deferred tax assets in the year amounting to

£2.4m (2007: £nil). Further information regarding deferred tax asset recognition is shown in Note 6.

The post-tax pre-exceptional loss on continuing activities amounted to £18.8m (2007: £17.3m).

The Group recognised, under discontinued operations, a non-cash impairment relating to future milestone payments which were expected to result from the sale of the Group's Discovery Unit in 2006 of £2.4m (2007: £nil). These are now not expected to materialise.

The loss for the year (post discontinued operations and exceptionals) was £25.1m for 2008 against £17.3m in 2007.

### **Loan Facility**

In March 2007 we entered into a £50m debt facility provided by Fortress Investment Group, Morgan Stanley and funds managed by Och-Ziff Capital Management Group. This 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 12 month period.

ProStrakan has drawn down £37m including £17m in 2008. Interest is charged at a rate of (i) the greater of either one month LIBOR or 5% plus (ii) a margin between 5.0% and 5.5%. In addition the Lenders were issued with warrants over five million shares in ProStrakan, representing 2.5% of the current shares in issue. The warrants have a 10 year life and an exercise price of 98.052p per warrant.

### **Cash Flow**

The loss for the financial period, adjusted for non-cash items such as depreciation and amortisation less the working capital requirements from continuing operations, led to a net cash outflow from operating activities of £9.5m (2007: £14.7m). Net finance costs provided an outflow of £2.1m (2007: inflow of £0.3m) while net capital expenditure on tangible and intangible assets amounted to £2.2m (2007: £1.3m). Net financing activities totalled £21.6m, and included the debt facility drawdown of £17.0m and the proceeds from the disposal of available-for-sale financial assets (Galapagos shares) of £4.6m (2007: £17.9m net proceeds from borrowings; and share issue proceeds £1.8m), resulting in a cash increase in 2008 of £10.2m (2007: £4.0m). Cash and cash equivalents at the end of the period were £34.7m (2007: £24.5m).

### **Balance Sheet**

The Group's non-current assets at 31 December 2008 were £46.6m (2007: £50.6m). This total consists of intangible assets of £41.7m, property, plant and equipment of £1.4m, deferred tax assets of £2.4m and R&D tax credits recoverable of £1.1m. The intangible assets consist of acquired product rights of £30.6m, goodwill of £10.9m and other intangibles of £0.2m. Inventories have increased to £7.0m (2007: £4.5m) while trade and other receivables have increased to £11.0m (2007: £9.2m). Trade and other payables, which include indemnification against the potential tax liability arising from the disposal of ProSkelia SAS in 2006, increased to £38.7m (2007: £26.8m). Other non-current liabilities, which include the loan drawdown, have also increased to £49.8m (2007: £25.0m). Total equity at 31 December 2008 was £8.6m (2007: £35.8m).

## ProStrakan Group plc

Consolidated income statement (unaudited)

	Year ended 31 December 2008 £m	Exceptionals £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Revenue	56.1		56.1	45.6
Cost of goods sold	(20.0)		(20.0)	(13.9)
<b>Gross profit</b>	<b>36.1</b>	<b>-</b>	<b>36.1</b>	<b>31.7</b>
Distribution costs	(30.7)		(30.7)	(26.1)
Administrative expenses	(9.2)		(9.2)	(9.3)
Development	(10.6)		(10.6)	(10.1)
Other gains/(losses) – net	0.1	(1.7)	(1.6)	0.1
<b>Earnings before interest, taxation, depreciation and amortisation</b>	<b>(14.3)</b>	<b>(1.7)</b>	<b>(16.0)</b>	<b>(13.7)</b>
Depreciation of tangible assets	(0.3)		(0.3)	(0.3)
Amortisation of intangible assets	(2.5)		(2.5)	(2.4)
Impairment of product rights	(0.1)	(2.2)	(2.3)	(1.3)
<b>Operating loss</b>	<b>(17.2)</b>	<b>(3.9)</b>	<b>(21.1)</b>	<b>(17.7)</b>
Finance income	1.1		1.1	1.3
Finance costs	(4.4)		(4.4)	(2.8)
Movement in fair value of warrants	(0.8)		(0.8)	1.6
<b>Loss before income tax</b>	<b>(21.3)</b>	<b>(3.9)</b>	<b>(25.2)</b>	<b>(17.6)</b>
Taxation	2.5		2.5	0.3
<b>Loss for the year from Continuing operations</b>	<b>(18.8)</b>	<b>(3.9)</b>	<b>(22.7)</b>	<b>(17.3)</b>
<b>Discontinued Operations</b>	<b>-</b>	<b>(2.4)</b>	<b>(2.4)</b>	<b>-</b>
<b>Loss for the year</b>	<b>(18.8)</b>	<b>(6.3)</b>	<b>(25.1)</b>	<b>(17.3)</b>
<b>Earnings per share for loss attributable to the equity holders of the Company during the year</b>				
<b>Basic Earnings per share</b> (expressed in pence per share)				
From continuing operations			(11.3p)	(8.6p)
From discontinued operations			(1.2p)	-
			<b>(12.5p)</b>	<b>(8.6p)</b>

Consolidated balance sheet (unaudited)

	<b>Year ended 31 December 2008 £m</b>	<b>Year ended 31 December 2007 £m</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Available for sale financial assets	-	7.7
Intangible assets	41.7	38.4
Property, plant and equipment	1.4	1.3
Other receivables	-	2.3
Deferred tax assets	2.4	-
Research and development tax credits receivable	1.1	0.9
	<b>46.6</b>	<b>50.6</b>
<b>Current assets</b>		
Inventories	7.0	4.5
Trade and other receivables	11.0	9.2
Income tax receivable	0.5	0.2
Research and development tax credits receivable	0.1	0.1
Cash and cash equivalents	34.7	24.5
	<b>53.3</b>	<b>38.5</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	38.7	26.8
Provisions for other liabilities and charges	0.6	0.1
Warrant Liability	2.2	1.4
	<b>41.5</b>	<b>28.3</b>
<b>Net current assets</b>	<b>11.8</b>	<b>10.2</b>
<b>Non-current liabilities</b>		
Other non-current liabilities	16.1	9.3
Borrowings	33.7	15.6
Provisions for other liabilities and charges	-	0.1
	<b>49.8</b>	<b>25.0</b>
<b>Net assets</b>	<b>8.6</b>	<b>35.8</b>
<b>EQUITY</b>		
<b>Capital and reserves attributable to the Company's equity holders</b>		
Share capital	172.2	172.2
Other reserves	69.9	72.0
Retained earnings	(233.5)	(208.4)
<b>Total equity</b>	<b>8.6</b>	<b>35.8</b>

Consolidated statement of changes in equity (unaudited)

	Share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2007</b>	<b>169.8</b>	<b>76.0</b>	<b>(197.0)</b>	<b>48.8</b>
Fair value gains, net of tax:				
- available-for-sale financial assets	-	0.9	-	0.9
Currency translation difference				
- being net income recognised directly in equity	-	0.7	-	0.7
Net income recognised directly in equity	-	1.6	-	1.6
Loss for the year	-	-	(17.3)	(17.3)
Total recognised income for 2007	-	1.6	(17.3)	(15.7)
Employee share option scheme:				
- value of services provided	-	0.4	-	0.4
- proceeds from shares issued	1.1	-	-	1.1
- options exercised	0.2	(0.2)	-	-
Warrants issued	-	0.5	-	0.5
Issue of share capital	0.7	-	-	0.7
Release of warrants	-	(5.9)	5.9	-
Shares exercised				
- previous year business combination	0.4	(0.4)	-	-
	2.4	(5.6)	5.9	2.7
<b>Balance at 31 December 2007</b>	<b>172.2</b>	<b>72.0</b>	<b>(208.4)</b>	<b>35.8</b>
<b>Balance at 1 January 2008</b>	<b>172.2</b>	<b>72.0</b>	<b>(208.4)</b>	<b>35.8</b>
Fair value gains, net of tax:				
- available-for-sale financial assets	-	(0.9)	-	(0.9)
Currency translation difference				
- being net income recognised directly in equity	-	(1.8)	-	(1.8)
Net income recognised directly in equity	-	(2.7)	-	(2.7)
Loss for the year	-	-	(25.1)	(25.1)
Total recognised income for 2008	-	(2.7)	(25.1)	(27.8)
Employee share option scheme:				
- value of services provided	-	0.6	-	0.6
<b>Balance at 31 December 2008</b>	<b>172.2</b>	<b>69.9</b>	<b>(233.5)</b>	<b>8.6</b>

Consolidated cash flow statement (unaudited)

	<b>Year ended 31 December 2008 £m</b>	<b>Year ended 31 December 2007 £m</b>
<b>Cash flows from operating activities</b>		
Continuing operations	(9.5)	(14.7)
Discontinuing operations	2.4	-
Cash used in operations	(7.1)	(14.7)
<b>Continuing operations</b>		
Finance income	1.1	1.3
Finance cost	(3.2)	(2.0)
R&D tax credits received	-	1.0
Income tax paid	-	-
	(2.1)	0.3
<b>Net cash used in operating activities</b>	<b>(9.2)</b>	<b>(14.4)</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets	(2.0)	(1.0)
Purchases of property, plant and equipment (PPE)	(0.3)	(0.3)
Proceeds from sale of PPE and intangibles	0.1	-
Proceeds from disposal of available-for-sale financial assets	4.6	-
<b>Cash flows used in continuing operations – investing activities</b>	<b>2.4</b>	<b>(1.3)</b>
<b>Net Cash used by investing activities</b>	<b>2.4</b>	<b>(1.3)</b>
Cash flows from financing activities		
Net proceeds from borrowings	17.0	17.9
Proceeds from issuance of ordinary shares (net of own shares purchased by ESOP)	-	1.8
<b>Net cash generated by financing activities</b>	<b>17.0</b>	<b>19.7</b>
<b>Net increase in cash and bank overdrafts</b>	<b>10.2</b>	<b>4.0</b>
Cash and cash equivalents at the beginning of the year	24.5	20.5
Exchange (losses)/gains on cash and bank overdrafts	-	-
<b>Cash and cash equivalents at the end of the year</b>	<b>34.7</b>	<b>24.5</b>

## 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 2008, 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 EU endorsed 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 2009.

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 2007 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 the Board on 17<sup>th</sup> March 2009.

### 2. Statement of Accounting policies

There have been no changes to the accounting policies during the year ended 31 December 2008.

### 3. Intangible assets

During the year £2.3m of product rights were impaired, £2.2m was in respect of the Times II Phase IV Tostran study along with £0.1m of Flutamide in Spain.

### 4. Earnings per share

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

	As at 31 December 2008	As at 31 December 2007
Loss attributable to equity holders of the Company (£m)	(25.1)	(17.3)
Basic earnings per share (pence per share)	(12.5)	(8.6)
Basic earnings per share from continuing operations		
Loss attributable to equity holders of the Company (£m)	(22.7)	(17.3)
Basic earnings per share (pence per share)	(11.3)	(8.6)
Basic earnings per share from discontinued operations		
Loss attributable to equity holders of the Company (£m)	(2.4)	-
Basic earnings per share (pence per share)	(1.2)	-
Weighted average number of ordinary shares in issue ('m)	201.2	200.9

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.

## **5. Exceptional Items**

During the year the Group recognised £6.3m of exceptional items. This is represented by: £1.7m loss on complete sale of Galapagos NV shares; £2.2m impairment relating to Times II Phase IV Tostran study; and £2.4m for the write off of future milestone payments anticipated as a result of the sale of the Group's Discovery unit in 2006.

## **6. Deferred Tax Asset**

The Group recognised £2.4m of deferred tax asset during the year. In prior periods no deferred tax assets were recognised because, in the opinion of the directors, the realisation of the related tax benefit through the future taxable profit was not probable. In the current period the directors have revised this opinion and a proportion of deferred tax asset has been recognised for the entities where future taxable profit has been considered probable.

## Segment Information

The Group is organised on a worldwide basis. The operations are based in four main geographical areas. The United Kingdom is the home of the parent company.

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Revenue</b>		
United Kingdom	27.5	23.8
European Union (excluding the UK)	26.2	17.1
United States	0.3	-
Other countries	2.1	4.7
	<b>56.1</b>	<b>45.6</b>

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

<b>Total Assets</b>		
United Kingdom	17.5	8.1
European Union (excluding the UK)	34.0	32.0
United States	1.1	-
Other countries	47.3	49.0
	<b>99.9</b>	<b>89.1</b>

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

<b>Capital expenditure</b>		
United Kingdom	0.1	0.2
European Union (excluding the UK)	0.3	0.2
United States	-	-
Other countries	13.8	0.9
	<b>14.2</b>	<b>1.3</b>

Capital Expenditure is allocated base on where the assets are located

Analysis of revenue by category		
Sales of goods	53.8	40.9
Licensing income	2.0	4.5
Royalty income	0.3	0.2
	<b>56.1</b>	<b>45.6</b>

## Cash generated from operations

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
<b>Continuing activities</b>		
Loss for the period	(25.1)	(17.3)
Adjustments for:		
- tax	(2.5)	(0.3)
- depreciation	0.3	0.3
- amortisation (including write-down of product rights)	4.9	3.8
- loss on sale of property, plant and equipment (see below)	(0.1)	-
- loss on sale available for sale financial asset	2.8	-
- net movement in provisions for liabilities and charges	1.0	0.2
- charges for share-based employee benefits	0.6	0.8
- interest income	(1.1)	(1.3)
- interest expense	4.4	2.8
Movement in fair value of warrants	0.8	(1.6)
- Changes in working capital (excluding the effects of acquisition and exchange difference on consolidation):		
- inventories	(2.5)	(0.8)
- trade and other receivables	0.1	(2.2)
- trade and other payables	6.9	0.9
Cash generated from operations	(9.5)	(14.7)
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount	-	-
Profit/(loss) on sale of property, plant and equipment	0.1	-
Proceeds from sale of property, plant and equipment	0.1	-
<b>Discontinued activities</b>		
Loss for the period	-	-
Adjustments for:		
- Earn out impairment	2.4	-
Cash generated from operations	2.4	-