

VERONA PHARMA PLC

(“Verona Pharma” or the “Company”)

PRELIMINARY UNAUDITED RESULTS for the twelve months ended 31 December 2008

Verona Pharma is a life sciences company dedicated to the research, discovery and development of new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory diseases such as asthma and chronic obstructive pulmonary disease (“COPD”), as well as chronic inflammatory diseases.

2008 OPERATIONAL HIGHLIGHTS

- | | |
|------------------|---|
| 8 January 2008 | Raised £2,319,333, before expenses, by way of a placing of 57,983,325 new ordinary shares in the Company at 4 pence per share. |
| 19 May 2008 | RPL554 passed pivotal safety and toxicology tests establishing that it can be given to humans in clinical trials.

Progressed document preparation and negotiations with clinical trial site to conduct a combined Phase I/IIa trial of RPL554. |
| 18 June 2008 | Signed a new collaboration agreement with GlycoMar Limited to advance work on its Novel Anti-Inflammatory Polysaccharides programme towards identifying a suitable candidate for clinical proof of concept studies in humans. |
| 9 September 2008 | Signed a contract with the Centre for Human Drug Research of The Netherlands to begin Phase I/IIa clinical trial of RPL554 in humans. |

2008 FINANCIAL HIGHLIGHTS

- | | |
|-----------|--|
| Financial | Loss after tax of £1.37 million or 0.66 pence per ordinary share, which includes a non-cash charge of £0.04 million for the cost of issuing share options.

Cash and cash equivalents at 31 December 2008 of £2.5 million. |
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SUBSEQUENT EVENT HIGHLIGHTS

- | | |
|-----------------|--|
| 28 January 2009 | Received approval from the regulatory authority in The Netherlands to commence Phase I/IIa clinical trial of RPL554. The trial commenced shortly thereafter. |
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CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S JOINT STATEMENT

We are pleased to announce good progress by Verona Pharma over the last year. We successfully completed safety and toxicology studies of our novel inhaled PDE3/4 inhibitor RPL554 and have since begun a Phase I/IIa trial of the drug at the Centre for Human Drug Research at Leiden in The Netherlands. The trial is designed as a preliminary assessment of safety and at the same time provide indications of RPL554's potential therapeutic actions. Thus, in addition to assessing safety in normal and asthmatic subjects, we will determine the possibility of whether RPL554 provides protection against an agent that causes bronchoconstriction (narrowing of airways) as well as directly producing bronchodilation (opening of airways) in a group of 10 asthmatic patients. As a final objective, we wish to determine whether RPL554 reduces the number of inflammatory cells produced in the nose of allergic rhinitis patients when they are challenged with an allergen to which they are sensitive. To date, the trial has proceeded to the satisfaction of the Company. Successful completion of the trial is expected to pave the way for further clinical development of RPL554.

This major clinical step forward by Verona Pharma in 2008 was accompanied by a successful equity raising of £2.3m in January of that year and advances in other projects. In addition, we demonstrated our ability to run a largely virtual company with very low overheads and a tightly controlled spend-rate. Thus the relatively sound financial status of Verona Pharma ensures that the RPL554 Phase I/IIa clinical trial will be completed, while work continues on other drug discovery projects. If the RPL554 trial is successful, the Company expects to maintain its financial position by raising further funding through either licensing or equity financing.

In view of the well-known high attrition rate for drug discovery projects, Verona Pharma has a clear strategy of nurturing more than one project at a time, while being prepared to take on other project opportunities as they arise, always being cautious to fund each project at a level commensurate with its development stage. This strategy requires careful project management and proportioning of time and resources.

Using the above approach we have been able to make progress with our second project, NAIPS, short for 'Novel Anti-Inflammatory Polysaccharides'. This project involves searching amongst a wide variety of sources for novel polysaccharides with anti-inflammatory actions greater than those seen with the naturally occurring compound, heparin, whose use as an anti-inflammatory drug is limited by its anti-coagulant activity. To date, through carrying out cellular and related in vitro assays, and investigating substances isolated from a wide variety of organisms, we have been successful in identifying various compounds that may have potential as anti-inflammatory drugs. Some of these compounds have been shown to have anti-inflammatory action in whole animals (in vivo), providing encouragement for the development of more potent, higher efficacy and low molecular weight compounds as clinical candidate molecules for development as an anti-inflammatory drug.

Our other project has as a target indication the condition of intractable cough, which continues to be a major clinical problem. We have two approaches to this condition. One involves validating work previously done with respect to a different target indication. We will seek to demonstrate in the clinic the anti-tussive (anti-coughing) actions of an existing drug so as to provide validity to our use of a large database of technical and experimental information as a potential route to a new inhaled drug for the treatment of cough. We are currently synthesizing and testing chemical compounds in animals in order to proceed further with this project. Running in parallel with this, we are also conducting animal studies with molecules obtained from a collaborating company to assess the molecules' potential anti-tussive usefulness. Success in this area will provide further strength to our cough project as well as provide a potential partnership. This latter study provides an example of how Verona Pharma continues to actively seek out new drug project opportunities that fit into its research focus, namely inflammation-related diseases of the respiratory tract such as asthma, rhinitis and COPD. In addition, we continue to evaluate other IP opportunities for our next project.

In conclusion, Verona Pharma continues to move through its clinical trial of RPL554, maintain its pace with existing projects, and identify new projects of interest. The Company's financial situation is sufficiently strong to reach beyond the current clinical trial of RPL554 and its potential for partnering. The Company recognises the difficulties of raising finance in the current economic climate and takes great care in harvesting its resources while running as lean and mean and virtual as possible.

Professor Clive P. Page
Chairman

Professor Michael J. A. Walker
Chief Executive Officer

**GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Research and development		(878,094)	(755,789)
Administration expenses	7	(603,519)	(558,318)
Operating loss		(1,481,613)	(1,314,107)
Finance revenue		138,380	96,844
Loss before taxation		(1,343,233)	(1,217,263)
Taxation	4	(27,877)	-
Loss for the period		(1,371,110)	(1,217,263)
Loss per ordinary share – basic and diluted	2	(0.66)p	(0.84)p

**GROUP BALANCE SHEET
AS AT 31 DECEMBER 2008**

	Notes	31 December 2008 £	31 December 2007 £
ASSETS			
Non current assets			
Tangible assets		14,088	16,058
Intangible assets		71,996	66,626
Goodwill	9	1,469,112	1,469,112
		<u>1,555,196</u>	<u>1,551,796</u>
Current assets			
Trade and other receivables		67,632	241,575
Cash and cash equivalents	6	2,454,882	1,252,063
		<u>2,522,514</u>	<u>1,493,638</u>
Total assets		<u>4,077,710</u>	<u>3,045,434</u>
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital		215,258	146,775
Option reserves		343,001	405,313
Share premium account		6,606,055	4,135,756
Retained losses		(3,170,797)	(1,799,687)
Total equity		<u>3,993,517</u>	<u>2,888,157</u>
Current liabilities			
Trade and other payables		84,193	157,277
Total liabilities		<u>84,193</u>	<u>157,277</u>
Total equity and liabilities		<u>4,077,710</u>	<u>3,045,434</u>

The financial statements were approved by the Board on 24 March 2009.

Prof. Clive Page
Chairman

**GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Net cash outflow from operating activities		(1,322,442)	(1,204,740)
Cash outflow from taxation		(27,877)	-
Cash flow from investing activities			
Interest received		137,657	110,758
Sale of short-term investment		-	1,300,000
Purchase of tangible assets		(8,588)	(5,291)
Purchase of intangible assets		(13,441)	(11,913)
Net cash inflow from investing activities		115,628	1,393,554
Cash flow from financing activities			
Proceeds from issue of shares		2,437,510	-
Net cash inflow from financing activities		2,437,510	-
Net increase in cash and cash equivalents		1,202,819	188,814
Cash and cash equivalents at the beginning of the year		1,252,063	1,063,249
Cash and cash equivalents at the end of the year	6	2,454,882	1,252,063

**GROUP STATEMENT OF CHANGES IN NET EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Share capital £	Share premium £	Option reserve £	Retained earnings £	Total £
Balance at 1 January 2007	144,275	4,038,256	298,056	(582,424)	3,898,163
Issue of shares	2,500	97,500	-	-	100,000
Share option charge	-	-	107,257	-	107,257
Net loss for the year	-	-	-	(1,217,263)	(1,217,263)
Balance at 31 December 2007	<u>146,775</u>	<u>4,135,756</u>	<u>405,313</u>	<u>(1,799,687)</u>	<u>2,888,157</u>
Issue of shares	68,483	2,465,850	-	-	2,534,333
Issue costs	-	(96,823)	-	-	(96,823)
Share option charge	-	-	38,960	-	38,960
Exercise of options	-	101,272	(101,272)	-	-
Net loss for the year	-	-	-	(1,371,110)	(1,371,110)
Balance at 31 December 2008	<u>215,258</u>	<u>6,606,055</u>	<u>343,001</u>	<u>(3,170,797)</u>	<u>3,993,517</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

1.1. Basis of preparation

The financial statements have been prepared using the historical cost convention. In addition, the financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

1.2. Basis of consolidation

These group financial statements include the accounts of Verona Pharma plc and its wholly-owned subsidiary Rhinopharma Limited. The purchase method of accounting is used to account for the acquisition of Rhinopharma Limited, and full consolidation of the subsidiary started from 18 September 2006 when control was established.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

Rhinopharma Limited adopts the same accounting policies as the Company.

1.3. Cash and cash equivalents

The Company considers all highly liquid investments, with a maturity of 90 days or less to be cash equivalents, carried at the lower of cost or market value.

1.4. Financial instruments

(a) Fair values

The carrying amounts of cash and cash equivalents, short-term investments, receivables and accounts payable and accrued liabilities approximate to fair value due to their short-term nature.

(b) Credit risk

Credit risk reflects the risk that the Group may be unable to recover contractual receivables. The Group is still in the development stage; therefore, no policies are required at this time to mitigate this risk.

(c) Currency risk

Foreign currency risk reflects the risk that the Group’s net assets will be negatively impacted due to

fluctuations in exchange rates. The Group has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. At 31 December 2008, cash and cash equivalents include Euro €3,052, and accounts payable and accrued liabilities include balances of CAD\$33,253, Euro €1,869 and AUD\$4,400.

1.5. Critical accounting judgements and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. IFRSs also require management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

(a) Impairment of intangible assets

Determining whether an intangible asset is impaired requires an estimation of whether there are any indications that its carrying value is not recoverable.

At each reporting date, the Company reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

(b) Valuation of goodwill

Management values goodwill after taking into account the results of research efforts and estimated future sales and costs. If the assumed factors vary from actual occurrence, this will impact on the amount of the asset which should be carried on the balance sheet.

(c) Share based payments

The Group records charges for share based payments. For option based share based payments management estimate certain factors used in the option pricing model, including volatility, exercise date of options and number of options likely to be exercised. If these estimates vary from actual occurrence, this will impact on the value of the equity carried in the reserves.

1.6. Management of capital

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle the Group's objective in managing its capital is to ensure funds raised meet the research and operating requirements until the next development stage of the Group's suite of projects.

The Group ensures it is meeting its objectives by reviewing its Key Performance Indicators ("KPIs") to ensure its research activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

1.7. New standards and interpretations not applied

During the year, the IASB and IFRIC have issued new standards, amendments and interpretations with an effective date after the date of these financial statements. Of these, only the following is expected to be relevant to the Group:

IFRS 8 Operating segments 1 January 2009

The Directors do not anticipate that the adoption of this standard will have a material impact on the Group's financial statements in the period of initial application.

2. Earnings per share

Basic loss per share of (0.66p) (2007: loss of 0.84p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 209,100,584 (2007: 144,405,137).

Diluted loss per share for the current period has not been presented since the Company's stock options are anti-dilutive.

3. Segmental information

The primary segmental reporting is determined to be by geographical segment according to the location of the assets. The Directors do not believe that there is a secondary segment that could be reported.

There are two geographical reporting segments.

Geographical segment (Group)	United Kingdom	Canada	Total
	£	£	£
Research and development	(893,338)	15,244	(878,094)
Administration expenses	(597,553)	(5,966)	(603,519)
Finance revenue	138,270	110	138,380
Loss before taxation	<u>(1,352,621)</u>	<u>9,388</u>	<u>(1,343,233)</u>
Tangible assets	14,088	-	14,088
Intangible assets	71,996	-	71,996
Trade and other receivables	66,787	845	67,632
Cash and cash equivalents	2,432,049	22,833	2,454,882
Goodwill	1,469,112	-	1,469,112
Trade and other payables	<u>(84,034)</u>	<u>(159)</u>	<u>(84,193)</u>
Net assets	<u>3,969,998</u>	<u>23,519</u>	<u>3,993,517</u>

At the end of the financial year, the Group was still in early development stage and therefore had no turnover in the year.

	2008	2007
	£	£
4. Taxation		
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	<u>(1,343,233)</u>	<u>(1,217,263)</u>
Multiplied by standard rate of corporation tax of 28.00% (30.00%)	<u>(376,105)</u>	<u>(365,179)</u>
Effects of:		
Non deductible expenses	10,909	33,362
Depreciation and amortisation	5,216	4,070
Capital allowances	(8,443)	(7,394)
Other tax adjustments	-	-
Tax losses carried forward	<u>396,300</u>	<u>335,141</u>
Current tax charge	<u>27,877</u>	<u>-</u>

Factors that may affect future tax charges

At the balance sheet date, the Group has unused United Kingdom tax losses available for offset against suitable future profits in the United Kingdom. A deferred tax asset has not been recognised in respect of such losses due to uncertainty of future profit streams. The contingent deferred tax asset is estimated to be £2,900,712.

5. Subsidiary entities

The Company currently has one wholly owned subsidiary, Rhinopharma Limited. Rhinopharma Limited is incorporated under the laws of the Province of British Columbia, Canada. Rhinopharma Limited was a drug discovery and development company focused on developing proprietary drug to treat allergic rhinitis and other respiratory diseases prior to its acquisition by the Company on 18 September 2006.

	2008	2007
	£	£
6. Cash and cash equivalents		
Group		
Cash at bank and in hand	223,784	152,063
Cash equivalents	<u>2,231,098</u>	<u>1,100,000</u>
	<u>2,454,882</u>	<u>1,252,063</u>

7. Cost of issuing share options

Included within administration expenses is a charge for issuing share options. The Company granted 1,159,666 (2007: 1,280,000) stock options during the current year with fair value using the Black-Scholes option-pricing model of £38,960 (2007: £107,257).

The 1,159,666 stock options granted in the current year are exercisable at 4 pence per option and the expiry date of these stock options is 8 July 2011.

The following assumptions were used for the Black-Scholes valuation of stock options granted in the current year:

Year/Type	2008
Options granted	1,159,666
Risk-free interest rate	4.60%
Expected life of options	3 years
Annualised volatility	87.48%
Dividend rate	0.00%

8. Related parties transactions

The Company was charged £45,026 (2007: £41,562) for consulting services by Magic Bullets Enterprises Limited, a company of which Prof. Michael Walker is a Director.

The Company was charged £27,000 (2007: £22,500) for consulting services by Gryon Consulting Limited, a company of which Prof. Clive Page is a Director.

	2008	2007
	£	£
9. Goodwill		
Group		
Goodwill	1,469,112	1,469,112
Company		
Goodwill	1,453,570	1,453,570

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the acquisition of Rhinopharma Limited in September 2006. The Company has elected to test goodwill for impairment as of 31 December of each year. Based on the evaluation performed as of 31 December 2008, the Company concluded that no impairment was required.

10. Subsequent events

On 28 January 2009, the Company received approval from the regulatory authority in The Netherlands to commence its Phase I/IIa clinical trial of RPL554.

11. Financial information

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2008 or 2007. The statutory accounts for the year ended 31 December 2008 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies.

12. Directors' report and accounts

Copies of the full report and accounts will be posted to shareholders on or around 17 April 2009. A copy will be made available on the Company's website (www.veronapharma.com) at the same time.

13. Annual General Meeting

The Company intends to convene an annual general meeting of shareholders on or around 22 May 2009 at 11.30am at One America Square, Crosswall, London EC3N 2SG. A notice to convene the AGM will be dispatched to shareholders at the same time the full report and accounts are dispatched.

ENDS

For further information please visit www.veronapharma.com or contact:

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