

Company Number 05375156

VERONA PHARMA PLC

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

CONTENTS

	Page
Contents	2
Directors, secretary and advisers	3
Corporate statement	4
Chairman and Chief Executive Officer's joint statement	5-7
Group statement of comprehensive income	8
Group statement of financial position	9
Group statement of cash flows	10
Group statement of changes in equity	11
Notes to the financial information	12

VERONA PHARMA PLC

DIRECTORS, SECRETARY AND ADVISERS

Directors	Michael Walker Clive Page Claire Poll Trevor Jones Stuart Bottomley Patrick Humphrey
Company Secretary	John Bottomley
Registered Office	One America Square Crosswall London EC3N 2SG
Company Number	05375156
Auditors	UHY Hacker Young Quadrant House 4 Thomas More Square London E1W 1YW
Nominated Adviser and Joint broker	Evolution Securities Limited 100 Wood Street London EC2V 7AN
Joint broker	WH Ireland Group Plc 37a Waterloo Street Birmingham B2 5TJ
Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW
Principal Banker	Royal Bank of Scotland 1 st Floor Argyll House 246 Regent Street London W1B 3PB
Registrars	Computershare Investor Services PLC PO Box 82, the Pavilions Bridgewater Road Bristol BS99 7NH

**CORPORATE STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

Verona Pharma plc is a biotechnology company dedicated to discovering new drugs for the treatment of chronic respiratory diseases, such as asthma, allergic rhinitis (hay fever), chronic obstructive pulmonary disease (COPD) and cough. Today, the Company announces its unaudited interim results for the six months ended 30 June 2011.

OPERATIONAL HIGHLIGHTS

For the six months to 30 June 2011

- Successfully completed a further Phase I/II clinical trial of RPL554 at the Centre for Human Drug Research (“CHDR”) in the Netherlands in order to evaluate the safety and bronchodilator effectiveness of two higher doses (delivered doses of 36 and 72 microgram/kg) of RPL554 in patients with mild asthma. The bronchodilation seen at both doses was equivalent in extent and duration to that seen in a previous trial with a lower dose (18 microgram/kg). The only statistically significant finding was a small increase in heart rate.
- Commenced a further Phase II clinical trial of RPL554 at CHDR to ascertain whether the bronchodilator actions of RPL554 are sustained over a period of 6 days with single daily doses given to patients with mild asthma.
- Began a pilot Phase II clinical trial of RPL554 at the University of Tor Vergata in Rome in order to evaluate the safety and bronchodilator effectiveness of single doses of the drug in patients with mild to moderate COPD.
- Completed induction of patients for the clinical trial of the Company’s cough drug, VRP700, at the University of Florence, Italy, in order to evaluate the effectiveness of the drug in reducing cough in patients with chronic intractable cough.

FINANCIAL HIGHLIGHTS

- Loss after tax of £0.97 million or 0.40 pence per ordinary share. The loss includes a non-cash share based payment charge of £0.16m.
- Low cash burn rate and cash and cash equivalents as at 30 June 2011 of £1.15 million.

HIGHLIGHTS SUBSEQUENT TO 30 JUNE 2011

- Successfully completed a further Phase II clinical trial at CHDR demonstrating that the extent and duration of RPL554’s bronchodilator action was sustained over a period of 6 days of treatment. There was no accumulation of the drug in plasma and no safety issues were observed. There was a minor increase in heart rate at day 6, the last day of the trial.
- Successfully completed the VRP700 trial at the University of Florence, Italy demonstrating that the inhalation of a single dose of VRP700 significantly reduced coughing in a group of patients with chronic intractable cough due to underlying lung disease. By all the measures used, including the physicians’ and patients’ assessments, the drug was effective. There were no adverse effects associated with the treatment.

**CHAIRMAN AND CEO'S JOINT STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

INTRODUCTION

The six month period to 30 June 2011 has been an even busier one for Verona Pharma in conducting and completing clinical trials as well as pursuing the licensing of RPL554 to an appropriate pharmaceutical partner. The Company made significant progress in further defining the therapeutic value of RPL554 and establishing the proof of concept of VRP700 for the treatment of cough. The Company continued to test potential lead compounds for its NAIPs programme and assessed other potential opportunities for inclusion in its pipeline in the future as projects are licensed out.

RPL554

The Company continues to pursue licensing of its lead programme, RPL554, a novel inhaled PDE3/4 inhibitor as a treatment for inflammatory diseases of the respiratory tract, including asthma, COPD and allergic rhinitis (hay fever). As the Company has stated previously, it is seeking the most compatible and appropriate licensing partner to develop RPL554 into a marketed medicine. This search is worldwide and encompasses all appropriate and suitably sized pharmaceutical companies with expertise with respiratory drugs used in asthma and COPD.

The Company initiated further clinical trials in order to provide important clinical data to add further value to the overall RPL554 licensing package. The first of these follow-on trials started in November 2010 and took place in Leiden, The Netherlands, at CHDR. The purpose of the trial was to evaluate the safety and bronchodilator effectiveness of higher doses of RPL554 in patients with mild asthma. This was part of the process of establishing an appropriate dose for patients with respect to both effectiveness as a bronchodilator, and safety. The trial was successfully completed in February 2011 without any withdrawals due to adverse effects. Both doses (delivered doses of 36 and 72 micrograms/kg) of RPL554 produced bronchodilation as assessed with standard FEV1 (Forced Expiratory Volume in 1 sec) measurements. The extent of bronchodilation with both doses was equivalent to that seen with the initial trial of RPL554 where a dose of 18microgram/kg was given. Despite these high doses, there were no gastrointestinal symptoms related to the administration of the drug, which is a common limiting side effect of many PDE4 (phosphodiesterase type 4) inhibitors. At the highest dose given, a small increase in heart rate was seen. This study has allowed the Company to set appropriate doses for future studies.

A further follow-on clinical trial with RPL554 began in April 2011 and is ongoing at the University of Tor Vergata in Rome, Italy. This clinical trial is designed to determine whether the 18microgram/kg dose is safe and produces bronchodilator effects in patients with mild to moderate COPD. Progress of the trial is slower than expected due to unavoidable delays in patient recruitment but the Company anticipates that the trial will be completed during Q4 2011.

A further clinical trial with RPL554 began in May 2011 at CHDR to examine the safety, duration of action and maintenance of bronchodilator action of the drug when given as a daily dose of 18microgram/kg for several days. Bronchodilation was assessed by FEV1 (forced expiratory volume at 1 second) measurements which is the most common method used to evaluate the bronchodilator effects of drugs. The trial, which was a single blind, randomised, placebo-controlled trial, successfully demonstrated that the bronchodilator actions of RPL554 had the same maximum effect and duration throughout the treatment period. There was no evidence of any accumulation of the drug in plasma, and no safety issues were observed. A minor increase in heart rate was seen at day 6 only, the extent of which was less than that commonly seen with conventional asthma therapies.

**CHAIRMAN AND CEO'S JOINT STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

VRP700 CLINICAL TRIAL

The clinical trial of VRP700 for the treatment of cough was begun in 2010 at the University of Florence, Italy. The trial was specifically designed to demonstrate the anti-tussive (cough-suppressive) effects of VRP700 when given by inhalation to patients with chronic intractable cough from underlying lung disease. Since inhaled VRP700 was considered to have a considerable safety margin the decision was taken to test the drug against a severe form of cough, due to pathology, rather than against cough induced in normal volunteers.

The trial was a double-blind, cross-over, placebo-controlled, contingency study with the primary end point being the number of coughs recorded. A single dose of VRP700 was inhaled in a nebulized form for approximately 10 minutes. In an announcement made today, we reported that inhalation of VRP700 significantly reduced coughing for at least 4 hours. There were no adverse effects associated with the treatment.

NAIPS

The Company continues to obtain and evaluate novel fractions from various sources with the intent of identifying compounds with improved potency and efficacy that may be potential clinical candidates for development as an anti-inflammatory drug. Progress of the NAIPs programme has been limited as the Company is focusing its resources on advancing the RPL554 and VRP700 programmes.

FINANCIALS

The loss for the six month period ended 30 June 2011 ("the Period") increased by 24% or £0.19 million to £0.97 million (2010: £0.78 million).

The Company has continued to maintain a low cash burn rate. Research and development expenditures, net of research and development tax credit ("RDTC"), for the Period were £0.45 million as compared to £0.41 million for the comparable period in 2010. RDTC recorded during the period was £0.12 million (2010: £Nil). The focus of the Company's research and development activities during the Period has continued to be the RPL554 programme with expenditures of £0.48 million (2010: £0.33 million) on this project.

Administrative expenses for the Period were £0.52 million (2010: £0.37 million). The increase of £0.15 million over the prior period was primarily due to an increase in the share based payment charge of £0.16m (2010: £0.02m). This resulted from the Period's allocation of the expense for relevant share options issued in 2010 and 2009, and expense for extending the expiry date of director options.

As at 30 June 2011 the Company had approximately £1.15 million in cash and cash equivalents.

OUTLOOK

All current evidence continues to indicate that RPL554 has the potential to be a significant new respiratory drug that could capture a significant market share. Verona Pharma expects to find a suitable partner to assist in taking this 'first in class' respiratory drug to market. In the meantime, the higher dose trial which was successfully completed in February 2011, the repeated dose trial over a period of days which was successfully completed in August 2011, and the COPD trial which is expected to be completed in Q4 2011, add value to the RPL554 licensing package.

VERONA PHARMA PLC

**CHAIRMAN AND CEO'S JOINT STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

The Company is delighted to see the positive results achieved from the clinical trial of VRP700, and it plans to advance the clinical development of the programme with the aim of taking it to a stage where the drug could be licensed.

We remain very positive about the progress to date and we look forward to updating the market on further developments in due course.

Professor Clive P. Page
Chairman

Professor Michael J. A. Walker
Chief Executive Officer

**GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	Notes	6 months ended 30 June 2011 (unaudited) £	6 months ended 30 June 2010 (unaudited) £	Year ended 31 December 2010 (audited) £
Revenue		-	-	-
Cost of sales		-	-	-
Gross profit/(loss)		-	-	-
Research and development	2	(454,084)	(411,643)	(1,150,904)
Administration expenses		(518,579)	(367,806)	(745,256)
Operating loss		(972,663)	(779,449)	(1,896,160)
Finance revenue		2,273	4,202	7,898
Loss before taxation		(970,390)	(775,247)	(1,888,262)
Taxation		-	(4,532)	(4,532)
Loss and comprehensive loss for the period		(970,390)	(779,779)	(1,892,794)
Loss per ordinary share – basic and diluted	3	(0.40)p	(0.33)p	(0.79)p

VERONA PHARMA PLC

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	As at 30 June 2011 (unaudited) £	As at 30 June 2010 (unaudited) £	As at 31 December 2010 (audited) £
ASSETS			
Non current assets			
Tangible assets	10,374	17,120	15,513
Intangible assets	93,611	88,353	100,452
Goodwill	1,469,112	1,469,112	1,469,112
	<u>1,573,097</u>	<u>1,574,585</u>	<u>1,585,077</u>
Current assets			
Trade and other receivables	201,668	78,085	68,808
Cash and cash equivalents	1,149,706	2,907,373	2,003,012
	<u>1,351,374</u>	<u>2,985,458</u>	<u>2,071,820</u>
Total assets	<u>2,924,471</u>	<u>4,560,043</u>	<u>3,656,897</u>
EQUITY AND LIABILITIES			
Capital and Reserves attributable to Equity holders			
Called up share capital	239,906	238,747	239,906
Option reserve	517,359	374,976	359,008
Share premium account	9,373,526	9,328,298	9,373,526
Retained losses	(7,492,281)	(5,447,836)	(6,521,891)
Total equity	<u>2,638,510</u>	<u>4,494,185</u>	<u>3,450,549</u>
Current liabilities			
Trade and other payables	285,961	65,858	206,348
Total liabilities	<u>285,961</u>	<u>65,858</u>	<u>206,348</u>
Total equity and liabilities	<u>2,924,471</u>	<u>4,560,043</u>	<u>3,656,897</u>

**GROUP STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	6 months ended 30 June 2011	6 months ended 30 June 2010	Year ended 31 December 2010
	£	£	£
Net cash outflow from operating activities	(855,352)	(723,671)	(1,655,540)
Cash outflow from taxation	-	(4,532)	(4,532)
Cash flow from investing activities			
Interest received	2,125	4,118	7,898
Purchase of tangible assets	-	(2,749)	(7,081)
Purchase of intangible assets	(79)	(23,313)	(41,640)
Net cash inflow(outflow) from investing activities	2,046	(21,944)	(40,823)
Cash flow from financing activities			
Deferred financing cost	-	54,365	54,365
Net proceeds from issue of shares	-	773,174	819,561
Net cash inflow from financing activities	-	827,539	873,926
Net (decrease)/increase in cash and cash equivalents	(853,306)	77,392	(826,969)
Cash and cash equivalents at the beginning of the period	2,003,012	2,829,981	2,829,981
Cash and cash equivalents at the end of the period	1,149,706	2,907,373	2,003,012
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss	(972,663)	(779,449)	(1,896,160)
Cost of issuing share options	158,351	18,766	41,758
(Increase)/decrease in trade and other receivables	(132,712)	248,893	258,086
Increase/(decrease) in trade and other payables	79,613	(221,044)	(80,554)
Non-cash expense	-	-	-
Depreciation of tangible assets	5,139	3,634	9,572
Amortisation of intangible assets	6,920	5,529	11,758
Net cash outflow from operating activities	(855,352)	(723,671)	(1,655,540)

**GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	Share capital £	Share premium £	Option reserve £	Retained earnings £	Total £
Balance at 1 January 2011	239,906	9,373,526	359,008	(6,521,891)	3,450,549
Total comprehensive loss for the period	-	-	-	(970,390)	(970,390)
	239,906	9,373,526	359,008	(7,492,281)	2,480,159
Share based payment	-	-	158,351	-	158,351
Balance at 30 June 2011 (unaudited)	239,906	9,373,526	517,359	(7,492,281)	2,638,510
Balance at 1 January 2010	232,378	8,561,493	356,210	(4,668,057)	4,482,024
Total comprehensive loss for the period	-	-	-	(779,779)	(779,779)
	232,378	8,561,493	356,210	(5,447,836)	3,702,245
Issue of shares	6,369	821,570	-	-	827,939
Issue costs	-	(54,765)	-	-	(54,765)
Share based payment	-	-	18,766	-	18,766
Balance at 30 June 2010 (unaudited)	238,747	9,328,298	374,976	(5,447,836)	4,494,185
Balance at 1 January 2010	232,378	8,561,493	356,210	(4,668,057)	4,482,024
Total comprehensive loss for the Year	-	-	-	(1,892,794)	(1,892,794)
	232,378	8,561,493	356,210	(6,560,851)	2,589,230
Issue of shares	7,528	866,798	-	-	874,326
Issue costs	-	(54,765)	-	-	(54,765)
Share based payment	-	-	41,758	-	41,758
Transfer of previously expensed share based payment charge upon exercise of options	-	-	(38,960)	38,960	-
Balance at 31 December 2010 (audited)	239,906	9,373,526	359,008	(6,521,891)	3,450,549

**NOTES TO THE FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

1. Publication of non-statutory accounts

i) This interim financial information for the six months ended 30 June 2011 is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. It was approved by the board of directors on 6 September 2011. The figures for the year ended 31 December 2010 have been extracted from the statutory accounts which have been reported on by the Company's auditor. The financial statements for the year ended 31 December 2010 have been delivered to the Registrar of Companies and the auditor's report on those financial statements was unqualified and did not contain a statement made under section 498 (2) or section 498 (3) of the Companies Act 2006.

ii) Accounting policies

The interim financial statements for the six months ended 30 June 2011 includes the results of Verona Pharma plc and its wholly-owned subsidiary Rhinopharma Limited. The unaudited results for the period have been prepared on the basis of accounting policies adopted in the audited accounts for the year ended 31 December 2010.

iii) The directors do not recommend the payment of a dividend (period to 30 June 2010 - £Nil, year ended 31 December 2010 - £Nil).

iv) A copy of the interim report is available on the Company's website www.veronapharma.com.

2. Research and development

The figure for the six months ended 30 June 2011 of £454,084 is after deduction of a research and development tax credit of £124,407. The tax credit is a cash refundable tax credit for the PAYE and national insurance contributions paid by the Company in fiscal years 2009 and 2010.

3. Earnings per share

i) The basic loss per share of 0.40p (30 June 2010: loss of 0.33p, 31 December 2010: loss of 0.79p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 239,906,705 (30 June 2010: 238,448,621, 31 December 2010: 238,761,092).

ii) The diluted loss per share has not been presented since the Company's stock options are anti-dilutive.

4. Comparatives

The comparatives include audited figures for the year ended 31 December 2010 and unaudited figures for the six months ended 30 June 2010.