Company Number 05375156

VERONA PHARMA PLC

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

VERONA PHARMA PLC

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VERONA PHARMA PLC

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Company Number	05375156
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CORPORATE STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2010

Verona Pharma plc is a biotechnology company dedicated to the research, discovery and development of new therapeutic drugs for the treatment of chronic respiratory diseases, including asthma and chronic obstructive pulmonary disease (COPD), allergic rhinitis (hay fever) and cough.

OPERATIONAL HIGHLIGHTS

For the six months to 30 June 2010

- Received the final quality assured study report from the Centre for Human Drug Research (CHDR) at Leiden University for the Phase I/IIa trial of Verona's lead product, RPL554, which confirmed the quality of the clinical trial and its associated analyses.

- Completed successful studies to test the feasibility of administrating RPL554 in the two major types of inhaler devices commonly used by patients with asthma and COPD to offer different administration routes for potential licensees.

- Progressed discussions further with potential licensees for the future further development and commercialisation of RPL554.

- Planned further trials of RPL554 to provide additional clinical data about the safety, duration of bronchodilatory action and the extent of anti-inflammatory action at higher doses, thereby strengthening and adding value to the RPL554 licensing package.

- Filed four new patents related to novel compounds discovered under the Company's Novel Anti-Inflammatory Polysaccharides project.

FINANCIAL HIGHLIGHTS

- Loss after tax of £0.78 million or 0.33 pence per ordinary share.

- Low cash burn rate and cash and cash equivalents as at 30 June 2010 of £2.91 million.

SUBSEQUENT EVENT HIGHLIGHTS

- The regulatory documents for the clinical trial of VRP700 in chronic cough patients have been submitted to the ethics committee at the University of Florence. Approval to proceed with the trial is expected soon.

- The regulatory documents are being prepared for the two further clinical trials for RPL554 to be conducted in the Netherlands in order to further investigate the safety, duration of bronchodilatory action as well as the extent of anti-inflammatory action at higher doses. Some of the documents have already been submitted for approval. These trials involve both single doses and repeated dosing over a period of days. We hope to receive the go-ahead for these trials within the next quarter.

INTRODUCTION

The six month period to 30 June 2010 has been another busy one for Verona. We continue to vigorously pursue the licensing of RPL554 to an appropriate and financially strong pharma partner, as well as progress our other programmes – for intractable cough and the Novel Anti-Inflammatory Polysaccharides ("NAIPS"). We also continue to review potential new projects for inclusion into the Verona pipeline for the longer term. We maintain a firm hold on the Company's finances and operate a proven financial model which enables us to apply our resources to the maximum.

RPL554

Discussions are advancing with respect to our lead drug, RPL554, a treatment for inflammatory diseases of the respiratory tract, including asthma, allergic rhinitis (hay fever) and Chronic Obstructive Pulmonary Disease ("COPD") with a number of potential licensees. As we have stated before, we are seeking the most compatible and appropriate licensing partner to develop RPL554. In the interim period, the Company has also implemented steps to initiate three further clinical trials to provide useful clinical data that is expected to add to the overall value of the RPL554 package.

The Company is in the process of preparing and submitting the necessary regulatory documents to appropriate authorities in the Netherlands for two clinical trials in asthmatic patients. The two trials will examine the safety and duration of action of RPL554 with respect to bronchodilation as well as the extent of anti-inflammatory action of RPL554 at higher repeated doses given over several days. Additionally, the Company has almost completed the regulatory and ethical process with the University of Rome, Tor Vergata, for a clinical trial designed to test the bronchodilator effects as well as safety of RPL554 in patients with established COPD. The incidence of COPD continues to grow. It is a disease with significant unmet treatment needs and in which we anticipate that RPL554 will be of significant clinical value.

Furthermore, the Company is ascertaining the methods by which RPL554 can be administered by oral inhalation to patients using appropriate oral inhaler devices. Traditionally, asthma and COPD drugs are delivered mainly from dry powder inhalers and/or pressurised metered inhalers while nebulised drugs are also used in a minority of patients. In both the currently planned and completed trials, RPL554 has been delivered using a nebulizer. The Company is now conducting experimental trials designed to test the feasibility of delivering RPL554 for inhalation via a dry powder inhaler (DPI) and/or via a pressurized metered dose inhaler (pMDI). These experiments will assist potential licensees in deciding the most suitable administration route for the commercialisation of RPL554. They will obviously add value and strengthen the Company's position with respect to licensing discussions.

VRP700

The Company has submitted the necessary regulatory and ethical documents for a clinical trial of VRP700 in patients with intractable cough due to underlying severe lung disease. The study will be conducted at the University of Florence, Italy. The trial has been specifically designed to demonstrate the anti-tussive (cough-suppressive) effects of VRP700. It is anticipated that the ethics committee will make a decision on the proposed trial soon. Once approved, we would aim to complete the trial by the year end, however, this will be dependent on other factors, namely, patient recruitment and the effectiveness of the anti-cough actions of VRP700.

NAIPS

Verona Pharma's NAIPS project has progressed to the point that the Company has submitted four new 'composition of matter' patents for fractions that have been discovered as a result of the collaboration with Glycomar Ltd. These novel fractions have been identified from a number of marine sources. They have shown anti-inflammatory actions that are of potential clinical value in disease states. This is a significant step forward for the project. We also continue to seek other novel NAIPs via our collaboration with Glycores SpA.

FINANCIALS

The loss for the six month period ended 30 June 2010 ("the Period") increased by 1% or £0.01 million to £0.78 million (2009: £0.77 million).

Research and development expenditures for the Period were £0.41 million as compared to £0.46 million for the comparable period in 2009. The focus of the Company's research and development activities during the Period has continued to be the RPL554 programme with expenditures of £0.33 million (2009: £0.41 million). Overall research and development expenditure decreased by £0.05 million, primarily due to the decreases in expenditures for the RPL554 programme and NAIPS in the amount of £0.08 million and £0.01 million respectively. These decreases were offset by an increase in expenditure for VRP700 of £0.03 million and expenditure incurred in connection with searching for new projects in the amount of £0.01 million.

Administrative expenses for the Period were £0.37 million (2009: £0.32 million). The increase of £0.05 million over the prior period is primarily due to increase in investor relations activities and cost in connection with attending bio-partnering conferences.

The income tax expense of £0.01 million is capital gains tax paid by Verona Pharma's wholly-owned subsidiary Rhinopharma Limited during the period.

As at 30 June 2010 the Company had approximately £2.91 million in cash and cash equivalents.

OUTLOOK

All current evidence indicates that RPL554 has the potential to be a significant new respiratory drug that could capture significant market share. Verona Pharma is optimistic that we will find a suitable partner to assist us in taking the drug to market. In the meantime, the trials currently being planned for RPL554 are designed to take the drug through to the next development stage and add value to our licensing.

Progress with the VRP700 project clinical trial has been slower than we had hoped for due to administrative delays associated with setting the trial up. However, we have submitted the appropriate documentation to the ethics committee in Florence and anticipate that approval to start this trial will be received shortly.

We are pleased to report that we have continued to maintain a low cash burn rate that is in line with the proposed utilisation of £2.7 million net proceeds raised at the end of last year. We feel 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 2010

	Notes	6 months ended 30 June 2010 (unaudited) £	6 months ended 30 June 2009 (unaudited) £	Year ended 31 December 2009 (audited) £
Revenue		-	-	-
Cost of sales		-	-	-
Gross profit/(loss)		-	-	-
Research and development		(411,643)	(458,870)	(944,903)
Administration expenses		(367,806)	(318,790)	(660,872)
Operating loss		(779,449)	(777,660)	(1,605,775)
Finance revenue		4,202	6,241	7,243
Loss before taxation		(775,247)	(771,419)	(1,598,532)
Taxation		(4,532)	-	-
Loss and comprehensive loss for the period		(779,779)	(771,419)	(1,598,532)
Loss per ordinary share – basic and diluted	2	(0.33)p	(0.36)p	(0.74)p

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	As at 30 June 2010 (unaudited) £	As at 30 June 2009 (unaudited) £	As at 31 December 2009 (audited) £
ASSETS			
Non current assets			
Tangible assets	17,120	10,504	18,004
Intangible assets	88,353	72,609	70,570
Goodwill	1,469,112	1,469,112	1,469,112
	1,574,585	1,552,225	1,557,686
Current assets			
Trade and other receivables	78,085	66,464	381,259
Cash and cash equivalents	2,907,373	1,672,783	2,829,981
	2,985,458	1,739,247	3,211,240
Total assets	4,560,043	3,291,472	4,768,926
EQUITY AND LIABILITIES			
Capital and Reserves attributable to Equity holders			
Called up share capital	238,747	215,481	232,378
Option reserve	374,976	346,588	356,210
Share premium account	9,328,298	6,513,760	8,561,493
Retained losses	(5,447,836)	(3,840,944)	(4,668,057)
Total equity	4,494,185	3,234,885	4,482,024
Current liabilities			
Trade and other payables	65,858	56,587	286,902
Total liabilities	65,858	56,587	286,902
Total equity and liabilities	4,560,043	3,291,472	4,768,926

GROUP STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	6 months ended 30 June 2010	6 months ended 30 June 2009	Year ended 31 December 2009
	£	£	£
Net cash outflow from operating activities	(723,671)	(783,428)	(1,620,382)
Cash outflow from taxation	(4,532)	-	-
Cash flow from investing activities			
Interest received	4,118	8,774	9,879
Purchase of tangible assets	(2,749)	(2,321)	(16,593)
Purchase of intangible assets	(23,313)	(5,124)	(8,070)
Net cash (outflows) inflow from investing activities	(21,944)	1,329	(14,784)
Cash flow from financing activities			
Deferred financing cost	54,365	-	(54,365)
Net proceeds from issue of shares	773,174	-	2,064,630
Net cash inflow from financing activities	827,539	-	2,010,265
Net increase (decrease) in cash and cash equivalents	77,392	(782,099)	375,099
Cash and cash equivalents at the beginning of the period	2,829,981	2,454,882	2,454,882
Cash and cash equivalents at the end of the period	2,907,373	1,672,783	2,829,981
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss	(779,449)	(777,660)	(1,605,775)
Cost of issuing share options	18,766	3,587	13,209
Decrease/(increase) in trade and other receivables	248,893	5,835	(258,698)
(Decrease)/increase in trade and other payables	(221,044)	(27,606)	202,709
Non-cash expense	-	2,000	6,000
Depreciation of tangible assets	3,634	5,905	12,676
Amortisation of intangible assets	5,529	4,511	9,497
Net cash outflow from operating activities	(723,671)	(783,428)	(1,620,382)

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Share capital £	Share Premium £	Option reserve £	Retained earnings £	Total £
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 2009	215,258	6,504,783	343,001	(3,069,525)	3,993,517
Total comprehensive loss for the period	-	-	-	(771,419)	(771,419)
	215,258	6,504,783	343,001	(3,840,944)	3,222,098
Issue of shares	223	8,977	-	-	9,200
Share based payment	-	-	3,587	-	3,587
Balance at 30 June 2009 (unaudited)	215,481	6,513,760	346,588	(3,840,944)	3,234,885
Balance at 1 January 2009	215,258	6,504,783	343,001	(3,069,525)	3,993,517
Total comprehensive loss for the year	-	-	-	(1,598,532)	(1,598,532)
	215,258	6,504,783	343,001	(4,668,057)	2,394,985
Issue of shares	17,120	2,188,680	-	-	2,205,800
Issue costs	-	(131,970)	-	-	(131,970)
Share based payment	-	-	13,209	-	13,209
Balance at 31 December 2009 (audited)	232,378	8,561,493	356,210	(4,668,057)	4,482,024

1. Publication of non-statutory accounts

i) This interim financial information for the six months ended 30 June 2010 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 3 September 2010. The figures for the year ended 31 December 2009 have been extracted from the statutory accounts which have been reported on by the Company's auditor.

ii) Accounting policies

The interim financial statements for the six months ended 30 June 2010 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 2009.

iii) The directors do not recommend the payment of a dividend (period to 30 June 2009 - £Nil, year ended 31 December 2009 - £Nil).

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

2. Earnings per share

i) The basic loss per share of 0.33p (30 June 2009: loss of 0.36p, 31 December 2009: loss of 0.74p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 238,448,621 (30 June 2009: 215,321,168, 31 December 2009: 215,540,798).

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

3. Comparatives

The comparatives include audited figures for the year ended 31 December 2009 and unaudited figures for the six months ended 30 June 2009.