Company Number 05375156

VERONA PHARMA PLC

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

VERONA PHARMA PLC

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DIRECTORS, SECRETARY AND ADVISERS

Directors	Jan-Anders Karlsson (appointed 1 June, 2012) 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 Broker	W H Ireland Group Limited 24 Martin Lane London EC4R 0DR
Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW
Principal Banker	Royal Bank of Scotland 130 Jermyn Street London SW1Y 4UR
Registrars	Computershare Investor Services plc PO Box 82, The Pavilions Bridgewater Road Bristol BS99 7NH

CORPORATE STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012

Verona Pharma plc is a drug development company with first-in-class drugs to treat respiratory diseases, such as chronic obstructive pulmonary disease (COPD), asthma and chronic, severe cough. Today, the Company announces its unaudited interim results for the six months ended 30 June 2012.

OPERATIONAL HIGHLIGHTS

For the six months ended 30 June 2012

- Signed a contract with the Medicines Evaluation Unit (MEU) in Manchester, UK, to undertake a new clinical trial in healthy subjects with the Company's lead drug candidate, the dual PDE 3 and 4 inhibitor, RPL554, to test its anti-inflammatory effects with respect to COPD.

- Enrolled further patients in the Phase II clinical trial of RPL554 at the Tor Vergata Clinic at the University of Rome, Italy to obtain further data on the bronchodilator activity of RPL554 in patients with mild to moderate COPD.

- On 1 June 2012, appointed Dr. Jan-Anders Karlsson as the Company's Chief Executive Officer as successor to Professor Michael Walker.

FINANCIAL HIGHLIGHTS

- Loss after tax of £1.06 million (2011: £0.97 million) or 0.35 pence (2011: 0.40 pence) per ordinary share. The loss includes a non-cash share based payment charge of £0.04 million (2011: £0.16 million).

- Completed the second tranche and balance of the December 2011 placing by issuing a further 21.3 million shares at £0.05 per share to raise total gross proceeds of £1.07 million.

- Low cash burn rate; cash and cash equivalents as at 30 June 2012 of £2.36 million (2011: £1.15 million).

HIGHLIGHTS OF EVENTS SUBSEQUENT TO 30 JUNE 2012

- In July, commenced the clinical trial at MEU to test the anti-inflammatory effects of RPL554 with respect to COPD.

- In August, the patent estate around RPL554 was strengthened with the grant of a new patent in the US for RPL554.

- In September, the extended clinical trial of RPL554 in patients with mild to moderate COPD at the Tor Vergata Clinic in Rome was completed, adding further important data to demonstrate that inhaled RPL554 is an effective bronchodilator in these patients.

- Most recently, on 4 September 2012, data on the beneficial effects of RPL554 as a bronchodilator in patients with mild to moderate COPD was presented by the Principal Investigator from the Rome trial to the European Respiratory Society (ERS) Annual Congress in Vienna.

INTRODUCTION

During the six month period ended 30 June 2012 and to the date of this report, the Company's two main drug development programmes, RPL554 and VRP700, have continued to progress in clinical development. Specifically, a study to evaluate the possible anti-inflammatory activity of RPL554 in a model of COPD in healthy subjects was prepared and formally started in July. In addition, further data on the safety and bronchodilator effects of RPL554 in patients with mild to moderate COPD was obtained during the period and was presented with the data from the initial pilot study to the European Respiratory Society (ERS) in Vienna on 4 September 2012. With respect to VRP700, preparations began for a second study in patients with chronic, severe cough to obtain further data of the drug's activity in a larger patient group.

Jan-Anders Karlsson was appointed CEO on 1 June 2012. A strategic review of the Company was started by Dr. Karlsson together with the Board of Directors and, while the development of "first-in-class" compounds for respiratory and inflammatory diseases remains at Verona Pharma's core, a focusing of the Company's development programmes, strengthening of its capabilities and an acceleration of its commercialisation strategy is underway, as will be further discussed below.

RPL554

RPL554 is a dual phosphodiesterase 3 and 4 inhibitor that was selected for clinical development as pre-clinical studies had demonstrated both potent bronchodilator and anti-inflammatory properties. RPL554 is currently being developed as a potential "first-in-class" treatment for patients with chronic respiratory diseases such as COPD and asthma.

RPL554 successfully passed through a number of early clinical Phase I and II studies. These single and multiple dose studies suggest that RPL554, when inhaled across a range of doses, is an effective bronchodilator in patients with COPD and asthma and is an excellent candidate for further development as a new class of bronchodilator.

The clinical trial with RPL554 in patients with mild to moderate COPD at the Tor Vergata Clinic at the University of Rome was expanded during the reporting period to incorporate more patients so as to confirm and provide further data. Consistent with the initial part of the study completed in 2011, the magnitude of bronchodilator response produced by the drug was significantly larger than that produced by placebo and appeared to be at least equivalent to that produced by a standard dose of the reference bronchodilator beta2-agonist salbutamol in these patients. In addition, no safety issues were observed. The data from the trial was reported in an oral presentation by the Principal Investigator, Professor Mario Cazzola, at the European Respiratory Society Annual Congress in Vienna on 4 September 2012.

A separate randomized, double blind, placebo-controlled clinical trial to examine the potential anti-inflammatory effects of RPL554 was started at MEU in Manchester in early July 2012. The trial has been designed to test the anti-inflammatory properties of RPL554 in healthy subjects in a way that allows activity in patients with COPD to be predicted. The subjects will be treated once daily for 6 consecutive days with inhaled RPL554 before being challenged on the last day by an irritant agent that provokes an inflammatory response in their airways. The ability of RPL554 to reduce the amount of inflammation in the airways will be measured. During a separate 6 day period, the subjects will be treated with placebo in a blinded fashion and the activity of RPL554 will be compared to that of placebo treatment. The study is expected to be completed and its preliminary results published around year end.

Verona Pharma announced in August that the United States Patent and Trademark Office has granted a new patent for the Company's lead drug candidate, RPL554. The patent is the fourth patent issued for RPL554 and related compounds in the US. This new patent expands and strengthens the patent estate around RPL554 and provides exclusivity in the US, the most valuable pharmaceutical markets in the world.

Additional work is being planned to further characterize the bronchodilator and anti-inflammatory properties of RPL554 and to identify select groups of patients with high unmet medical need which may support the acceleration of the development and commercialisation of the drug. As Verona Pharma's lead drug candidate, we plan to continue to develop both the bronchodilator and anti-inflammatory properties of the compound to "proof-of-concept" in Phase II and thereby maximise the value that the Company can add to the drug while selecting a partner for commercialisation.

VRP700

Cough is the most common symptom of lung disease. Chronic cough of more than eight weeks duration can be a debilitating symptom when associated with severe lung diseases such as asthma, COPD, interstitial lung disease and lung cancer. Unfortunately, currently available cough remedies are considered relatively ineffective and can have significant side effects. The Company is evaluating VRP700 as a possible novel "first-in-class" treatment for patients with chronic cough due to severe lung disease.

The clinical trial of VRP700 at University of Florence, Italy that was completed in the second half of 2011 was further analyzed during the reporting period. In this study, inhalation of VRP700 for about 10 minutes very effectively reduced chronic cough in a small group of patients with various forms of severe lung disease. The positive effect was so pronounced that the Company has decided to pursue a follow-up study to confirm and extend the activity observed in the first study. The second study with VRP700 is planned to be performed in a larger group of patients with chronic cough due to severe underlying lung disease. Preparations for this study are underway and the study is expected to start around year end.

NAIPS

Further fractions and compounds obtained from GlycoMar and Glycores have been screened and evaluated in various assay systems for potential anti-inflammatory activity. While some progress has been made, the Company is allocating limited resources to this programme which is still at the pre-clinical stage.

FINANCIALS

The loss for the six month period ended 30 June 2012 (the "Period") increased by 10% or £0.09 million to £1.06 million (2011: £0.97 million) primarily as a result of the absence of a research and development tax credit, which had amounted to £0.12 million in the comparable period in 2011 (the "Prior Period").

Total research and development expenditure, which was expensed as incurred, was £0.59 million (2011: £0.58 million). Programme expenditures incurred during the Period were as follows: £0.44 million in RPL554 (2011: £0.48 million), £0.14 million in VRP700 (2011: £0.03 million), and £0.01 million in the NAIPs programme (2011: £0.07 million).

Expenditures in RPL554 decreased by £0.04 million as there were more clinical trials being undertaken in the Prior Period. Following the successful completion in late 2011 of a clinical proof of concept study at the University of Florence, Italy for its cough drug, VRP700, the Company has continued its research and development of VRP700 and related compounds, resulting in an increase in expenditure in the VRP700 programme of £0.11 million. The decrease in expenditure in the NAIPs programme of £0.06 million is due to the fact that progress of the programme has been limited as the Company has focused its resources on advancing the RPL554 and VRP700 programmes.

Administrative expenses for the Period were £0.49 million (2011: £0.52 million). The decrease of £0.03 million over the Prior Period was primarily due to a decrease in the share based payment charge of £0.12m. This decrease is offset by an increase in general and administrative expense of £0.09m.

As at 30 June 2012 the Company had approximately £2.36 million in cash and cash equivalents (2011: £1.15 million).

MANAGEMENT AND STAFF

On 1 June 2012, as part of succession planning, the Company appointed Jan-Anders Karlsson as successor to Michael Walker as CEO. Jan-Anders has broad pharmaceutical and biotechnology R&D and corporate experience. He was formerly the CEO at S*BIO, a Singapore and US based biotechnology company focused on the discovery and development of novel small molecule anti-cancer drugs. We welcome him to the team and look forward to his leadership of Verona Pharma in the next stage of its development.

We would like to thank Michael who co-founded and has been CEO for the past six years. He brought considerable scientific and commercial expertise to the Company and, under his leadership, the Company acquired and progressed the RPL554 and VRP700 programmes from pre-clinical studies through five successful clinical trials.

We would also like to thank our staff, consultants, advisors and collaborators for all of their dedicated effort and commitment.

OUTLOOK

A strategic review of the various options available to the Company has been undertaken during the summer by the Board of Directors. Building on existing capabilities, the Company's strategy comprises the pursuit of five cornerstone objectives:

1) **"First-in-class" medicines to treat respiratory and Inflammatory diseases**
   Build a strong clinical pipeline of "first-in-class" medicines for the treatment of respiratory and inflammatory diseases.
2) **Focus on optimising value**
   We will concentrate on drug candidates with a clear development path to commercialisation, high expected commercial value and the potential for wider use via novel formulations and new indications.

3) **Target patients with high unmet medical need to accelerate access to multi-billion dollar commercial markets.**
   Our programmes will initially target subsets of patients with high unmet medical need to increase the likelihood of obtaining an approvable, marketable and reimbursable drug. Subsequently, we will seek to expand the use in broader patient groups and in other diseases.
4) **Seek commercial partnerships after "Proof-of-Concept"**
   We will seek partnerships that support our aim to provide "first-in-class" medicines to patients with high unmet medical need, and at the same time deliver optimal Verona Pharma stakeholder value.
5) **Embrace "Large Pharma" quality, but biotech speed and cost-effectiveness**
   We will build capabilities and competencies in the Company to meet "Large Pharma" quality standards, but apply biotech speed and cost-effectiveness in our development programmes.

Together with a strong project focus and frequent market updates, we are confident that our strategy will build considerable value in the Company that will benefit our shareholders and, importantly, patients suffering from respiratory diseases.

Professor Clive P. Page
Chairman

Dr. Jan-Ander Karlsson
Chief Executive Officer

VERONA PHARMA PLC

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	6 months ended 30 June 2012 (unaudited) £	6 months ended 30 June 2011 (unaudited) £	Year ended 31 December 2011 (audited) £
Revenue		-	-	-
Cost of sales		-	-	-
Gross profit/(loss)		-	-	-
Research and development		(587,890)	(578,491)	(943,478)
Administration expenses		(487,667)	(518,579)	(904,194)
Operating loss		(1,075,557)	(1,097,070)	(1,847,672)
Finance revenue		12,826	2,273	3,478
Loss before taxation		(1,062,731)	(1,094,797)	(1,844,194)
Taxation	2	-	124,407	124,407
Loss and comprehensive loss for the period		(1,062,731)	(970,390)	(1,719,787)
Loss per ordinary share – basic and diluted	3	(0.35)p	(0.40)p	(0.71)p

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	As at 30 June 2012 (unaudited) £	As at 30 June 2011 (unaudited) £	As at 31 December 2011 (audited) £
ASSETS			
Non current assets			
Tangible assets	11,870	10,374	6,021
Intangible assets	106,251	93,611	114,569
Goodwill	1,469,112	1,469,112	1,469,112
	1,587,233	1,573,097	1,589,702
Current assets			
Trade and other receivables	191,111	201,668	90,858
Cash and cash equivalents	2,355,789	1,149,706	2,526,195
	2,546,900	1,351,374	2,617,053
Total assets	4,134,133	2,924,471	4,206,755
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	307,203	239,906	285,844
Option reserve	554,158	517,359	510,499
Share premium account	12,447,364	9,373,526	11,466,229
Retained losses	(9,274,557)	(7,492,281)	(8,211,826)
Total equity	4,034,168	2,638,510	4,050,746
Current liabilities			
Trade and other payables	99,965	285,961	156,009
Total liabilities	99,965	285,961	156,009
Total equity and liabilities	4,134,133	2,924,471	4,206,755

GROUP STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	6 months ended 30 June 2012	6 months ended 30 June 2011	Year ended 31 December 2011
	£	£	£
Net cash outflow from operating activities	(1,183,937)	(979,759)	(1,698,220)
Cash inflow from taxation	-	124,407	124,407
Cash flow from investing activities			
Interest received	3,586	2,125	3,451
Purchase of tangible assets	(9,623)	-	-
Purchase of intangible assets	-	(79)	(28,022)
Net cash (outflow)/inflow from investing activities	(6,037)	2,046	(24,571)
Cash flow from financing activities			
Deferred/(Prepaid) financing cost	17,074	-	(17,074)
Net proceeds from issue of shares	1,002,494	-	2,138,641
Net cash inflow from financing activities	1,019,568	-	2,121,567
Net (decrease)/increase in cash and cash equivalents	(170,406)	(853,306)	523,183
Cash and cash equivalents at the beginning of the period	2,526,195	2,003,012	2,003,012
Cash and cash equivalents at the end of the period	2,355,789	1,149,706	2,526,195
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss	(1,075,557)	(1,097,070)	(1,847,672)
Cost of issuing share options	43,659	158,351	181,343
(Increase)/decrease in trade and other receivables	(108,087)	(132,712)	(4,948)
(Decrease)/increase in trade and other payables	(56,044)	79,613	(50,339)
Depreciation of tangible assets	3,774	5,139	9,493
Amortisation of intangible assets	8,318	6,920	13,903
Net cash outflow from operating activities	(1,183,937)	(979,759)	(1,698,220)

VERONA PHARMA PLC

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Share capital £	Share premium £	Option reserve £	Retained earnings £	Total £
Balance at 1 January 2012	285,844	11,466,229	510,499	(8,211,826)	4,050,746
Total comprehensive loss for the period	-	-	-	(1,062,731)	(1,062,731)
	285,844	11,466,229	510,499	(9,274,557)	2,988,015
Issue of shares	21,359	1,046,607	-	-	1,067,966
Issue costs	-	(65,472)	-	-	(65,472)
Share based payment	-	-	43,659	-	43,659
Balance at 30 June 2012 (unaudited)	**307,203**	**12,447,364**	**554,158**	**(9,274,557)**	**4,034,168**
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 2011	239,906	9,373,526	359,008	(6,521,891)	3,450,549
Total comprehensive loss for the Year	-	-	-	(1,719,787)	(1,719,787)
	239,906	9,373,526	359,008	(8,241,678)	1,730,762
Issue of shares	45,938	2,263,756	-	-	2,309,694
Issue costs	-	(171,053)	-	-	(171,053)
Share based payment	-	-	181,343	-	181,343
Transfer of previously expensed share based payment charge upon exercise of options	-	-	(29,852)	29,852	-
Balance at 31 December 2011 (audited)	**285,844**	**11,466,229**	**510,499**	**(8,211,826)**	**4,050,746**

1. Publication of non-statutory accounts

i) This interim financial information for the six months ended 30 June 2012 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 13 September 2012. The figures for the year ended 31 December 2011 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 2011 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 2012 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 2011.

iii) The directors do not recommend the payment of a dividend (period to 30 June 2011 - £Nil; year ended 31 December 2011 - £Nil).

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

2. Taxation

The £124,407 research and development tax credit recognised in 2011 was received during that year and accounted for in the comparative periods. 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 0.35p (30 June 2011: loss of 0.40p; 31 December 2011: loss of 0.71p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 306,030,806 (30 June 2011: 239,906,705; 31 December 2011: 243,445,223).

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 2011 and unaudited figures for the six months ended 30 June 2011.