Company Number 05375156

VERONA PHARMA PLC

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2014

VERONA PHARMA PLC
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VERONA PHARMA PLC
DIRECTORS, SECRETARY AND ADVISERS

Directors	David Ebsworth (Non-Executive Chairman) Jan-Anders Karlsson (Chief Executive Officer) Biresh Roy (Chief Financial Officer) Claire Poll (Executive Director) Trevor Jones Stuart Bottomley Patrick Humphrey
Company Secretary	Ben Harber
Registered Office	Bradley Court Park Place Cardiff CF10 3DR
Company Number	05375156
Auditors	UHY Hacker Young Quadrant House 4 Thomas More Square London E1W 1YW
Nominated Adviser and Broker	N+1 Singer One Bartholemew Lane London EC2N 2AX
Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW
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VERONA PHARMA PLC
CORPORATE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

2014 OPERATIONAL HIGHLIGHTS

- Development and manufacture of a novel commercial formulation for nebulisation of the lead compound RPL554 - a "first-in-class", dual PDE3/PDE4 inhibitor with both bronchodilator and anti-inflammatory activities for treatment of respiratory diseases.

- Initiated Phase 1/2 clinical trial with the new formulation of RPL554 in healthy subjects at MEU, Manchester to confirm safety and tolerability of the new formulation.

- Filed multiple patents on RPL554 to extend IP coverage.

- Published data on RPL554 at the North America Cystic Fibrosis Conference, demonstrating that it is an activator of the CFTR channel that is dysfunctional in cells from cystic fibrosis patients and responsible for the respiratory problems in these patients.

- Obtained Venture and Innovation award from the Cystic fibrosis Trust, UK, for continuing the study of RPL554 in cell models of cystic fibrosis, the first biotech company to have received such an award.

- Appointed Dr. David Ebsworth as Non-Executive Chairman and Mr. Biresh Roy as Chief Financial Officer of the Company.

2014 FINANCIAL HIGHLIGHTS

- Completed a placing in March 2014 raising gross proceeds of £14.0 million.

- Loss after tax of £2.76 million (2013: £2.52 million) equivalent to 0.32 pence (2013: 0.74 pence) per ordinary share.

- Net cash outflows from operating activities during the year of £3.83m (2013: £2.34m), with cash and cash equivalents as at 31 December 2014 of £9.97m (2013: £0.60m).

POST PERIOD HIGHLIGHTS

- In on-going clinical trial, RPL554 demonstrated excellent tolerability at the highest dose studied, a 16 times higher dose than the previously used bronchodilator dose.

- Interim data with new formulation also suggests the drug could be dosed twice daily.

- Appointed Dr. Kenneth Newman as Chief Medical Officer.

INTRODUCTION

Verona Pharma is a biopharmaceutical company developing high value, first-in-class drugs for patients with chronic, debilitating respiratory diseases that are not well treated by existing medicines. The Company continued to implement its strategy to accelerate shareholder value creation, by focusing its resources on its lead programme RPL554, an innovative inhaled, dual phosphodiesterase (PDE) 3 and 4 inhibitor, as a nebulised treatment for patients in hospital with acute exacerbation of Chronic Obstructive Pulmonary Disease (COPD) to facilitate and speed up recovery and reduce the risk of early recurrence of symptoms after discharge from hospital. Many of these patients become hospitalised as a result of an acute worsening of their disease that cannot be prevented or treated by their current medications and they are therefore in need of more intensive care and treatment. RPL554's unique and very attractive properties, being both an effective bronchodilator and anti-inflammatory agent in the same compound, should be very beneficial to these patients. RPL554's unique combination of properties could also translate into activity in other respiratory disorders. The Company is currently exploring the potential of the drug in cystic fibrosis, where it is in pre-clinical testing. Cystic fibrosis is a genetic disease with a shortened lifespan in need of new and effective treatments. In addition, RPL554 could be beneficial as a chronic maintenance treatment for patients with COPD, although such development is long and costly and would therefore require a partnership.

RPL554 provides an opportunity to treat patients with respiratory diseases that are not optimally treated with currently available drugs. The Board believes there is no other compound which demonstrates RPL554's unique mechanism of action, or any other novel type of bronchodilator currently in clinical development. The market for nebulized bronchodilators in the US is about $1 billion providing a commercially very attractive opportunity. Additionally, the cystic fibrosis market and the market for maintenance treatment of COPD patients are both very large and provide significant upside sales potential for RPL554.

In March 2014, Verona Pharma competed a £14.0 million fundraising. These funds are being used to complete the RPL554 phase 2a development programme.

During 2014, the Company completed the development and manufacture of clinical trial materials for the Company's new formulation of RPL554 for use in a nebuliser. The first phase 1/2 clinical trial with the new formulation of RPL554 started in December 2014 at MEU, Manchester, UK. The study expects to enrol and complete by 2H 2015 and an interim report on the excellent tolerability of the new inhaled formulation has already been published. Based on these very positive data, the Board has decided to accelerate the development programme, as announced on 3 March 2015. During the period, scientific data on the bronchodilator effects of RPL554 in COPD and asthma were presented at the American Thoracic Society's annual conference in San Diego in May, and at the European Respiratory Society meeting in Munich in September.

Most importantly, the fund raising has also allowed Verona Pharma to strengthen its senior management team with a new CFO, Mr. Biresh Roy, from September 2014, a new Chairman of the Board, Dr. David Ebsworth, from December 2014, and a CMO, Dr. Kenneth Newman from January 2015.

In September, Verona Pharma published very promising pre-clinical data in a model of cystic fibrosis demonstrating that RPL554 activates the ion channel that is dysfunctional in cystic fibrosis patients and responsible for their respiratory symptoms. A Venture and Innovation Award was obtained from the Cystic Fibrosis Trust, UK, to continue these studies, making Verona Pharma the first biotech company to receive such a grant. The new data in cystic fibrosis was presented in Atlanta, US, in October, further enhancing the profile of RPL554.

Additionally, the Company filed a number of patent applications on RPL554 to further strengthen the patent portfolio and extend the patent life of the compound.

RPL554

RPL554 is a novel inhaled dual PDE3/PDE4 inhibitor that was selected for clinical development following pre-clinical studies that demonstrated both potent bronchodilator and anti-inflammatory properties. RPL554 is currently being developed as a very promising first-in-class treatment for patients with chronic respiratory diseases such as COPD and potentially cystic fibrosis. Future studies may also reveal a role in the treatment of asthmatics.

With the original proof-of-concept formulation, RPL554 successfully completed a number of early phase 1 and 2 clinical studies in over 100 subjects. To date, RPL554 has been administered to more than 150 human subjects. These single and multiple dose studies suggest that RPL554, when inhaled across a range of doses, is an effective bronchodilator in patients with COPD or asthma and is an excellent candidate for further development as a new class of bronchodilator. The Company is strongly encouraged by recent data showing a synergistic effect between RPL554 and anti-muscarinic drugs (an important drug class currently used in the treatment of patients with COPD) on human airway smooth muscle suggesting that RPL554 could be both a stand-alone treatment as well as a very attractive combination partner to existing treatments for COPD. RPL554 was well tolerated in these studies.

Importantly for the future commercialisation of RPL554 as a novel inhaled treatment for patients with COPD, the effect of RPL554 in a human model of COPD-like inflammation was examined after 6 days of treatment with the original formulation of the compound before being challenged on the last day by an irritant agent that provokes a COPD-like inflammatory response in their airways. RPL554 significantly reduced the number of neutrophils (an inflammatory cell type recognised for its central role in COPD, cystic fibrosis and severe asthma) in the sputum. There was a highly significant reduction in the numbers of inflammatory cells, with no clinically significant adverse events reported. These data indicate that RPL554 has anti-inflammatory properties, most likely due to inhibition of PDE4 (or perhaps the combined inhibition of PDE3 and 4), and it is believed that this adds to the direct bronchodilator effect of the drug and contributes to the improvement of symptoms of COPD.

A novel formulation of RPL554 has been developed for use in a nebuliser for the further clinical development of the compound. The manufacture of this new formulation is scalable and shows stability suitable for commercialisation. The first phase 1/2 clinical trial with the new formulation of RPL554 started in December 2014 at MEU, Manchester, UK. The study expects to enrol and complete by 2H 2015. An interim report on the first part of the study comprising 50 healthy subjects having received single doses by inhalation was recently completed. The new formulation was very well tolerated having been given at a dose 16 times higher than the previously used bronchodilator dose. In the single dose phase of the trial, the maximum tolerated dose was not reached. The absorption of the inhaled drug from the lung was slower than from the original formulation producing a more attractive profile most likely suitable for twice daily dosing.

A series of experiments were conducted in cells obtained from the airways of cystic fibrosis patients to demonstrate that RPL554 is an activator of CFTR (Cystic Fibrosis Transmembrane Conductance Regulator), the ion channel that is dysfunctional and causes the respiratory problems in patients with cystic fibrosis. These data were presented at the North America Cystic Fibrosis conference in Atlanta, US, in October 2014. This work continues with the support of a Venture and Innovation Award from the UK Cystic Fibrosis Trust, the first to be granted to a biotech company by the Trust. Cystic fibrosis is a rare, orphan disease, and therefore provides a very attractive development and market opportunity for the Company.

Further work was performed to extend and prolong patent protection of RPL554 through new patent filings and scientific abstracts were published during the year to increase the awareness of RPL554 in the medical and pharmaceutical communities.

VRP700

An earlier exploratory clinical trial of VRP700 at the University of Florence, Italy, showed a very strong positive response in a small group of patients with various forms of severe lung disease. Subsequently, a follow-on study in patients with interstitial pulmonary fibrosis (IPF) was undertaken at the University of Manchester, UK. However, in contrast to the first exploratory study, in this randomised, double-blind, placebo-controlled clinical study with inhaled VRP700, there was no effect of VRP700 on coughing. Based on these two single dose anti-cough studies, it is possible that longer and more frequent treatment with VRP700 would be required for consistent activity, or that it could be more effective in other types of lung diseases with chronic cough, such as lung cancer. The project is not being further developed internally and VRP700 is available for licensing.

NAIPs

No further work was undertaken in this project pending a review of data obtained to date.

FINANCIALS

The loss from operations for the year ended 31 December 2014 was £2.76m (2013: £2.52m). Research and development expenditure amounted to £2.63m (2013: £1.66m) and reflected an increase in expenditures on the RPL554 programme by £1.17m to £2.27m (2013: £1.10m) offset by a reduction in expenditure on the VRP700 programme by £0.19m to £0.36m (2013: £0.55m). The increase in expenditure on the RPL554 programme was primarily due to an acceleration of the development of the new nebulised formulation programme made possible by the March 2014 fundraising. The decrease in expenditure on the VRP700 programme was the result of the programme being placed on hold following the results of the clinical trials disclosed in June.

Administrative expenses for the year were £1.16m (2013: £1.16m).

On 24 March 2014 the Company announced that it had raised £14.0 million in gross proceeds from a placing, subscription and open offer. These funds will be used primarily to support the development of RPL554 in severe COPD as well as corporate and general administrative expenditures.

As at 31 December 2014, the Company had approximately £9.97 million in cash and cash equivalents.

MANAGEMENT AND STAFF

In September 2014, the Company appointed Biresh Roy as Chief Financial Officer and member of the Board of Directors. Mr Roy has a strong track record in financing international M&A deals and company turnarounds, mainly in the biotech sector. Mr Roy has advised a number of venture capital and private equity firms, and acted as Chief Financial Officer for several biotech and medical device companies, including Enigma Diagnostics, Xytis, Morphochem and Santhera. Prior to this, Mr Roy was a management consultant at AT Kearney and PWC, leading international assignments in the pharmaceutical sector. Mr Roy qualified as a Chartered Accountant with Price Waterhouse.

In December 2014, the Company appointed Dr. David Ebsworth as Chairman of the Board. Dr. Ebsworth has experience as a Board Chairman, as a Chief Executive Officer and as Chairman or member of remuneration and audit committees in international public and private pharma, biotech and venture capital companies. Previously, Dr Ebsworth served as CEO of Vifor Pharma, based in Zürich, the Specialty Pharma division of Galenica AG Group. Dr Ebsworth was also named as CEO of Galenica AG in 2011. He continues as advisor to the CEO of Vifor Pharma and Galenica Santé. Prior to that, Dr Ebsworth worked with Bayer for over 19 years, heading the Canadian, North American and global pharmaceutical business. He also served as CEO of Oxford Glycosciences.

In January 2015, the Company appointed Dr Kenneth Newman as Chief Medical Officer. Dr. Newman is an experienced pharmaceutical and biotechnology industry executive with extensive experience in clinical development, particularly for the treatment of respiratory disease. Prior to joining Verona Pharma, Dr. Newman was Chief Development Officer at Mesoblast Inc. Previously, Dr. Newman held the positions of Chief Medical Officer at Acton Pharmaceuticals, VP, Medical Affairs at Boehringer Ingelheim and several positions at Forest Laboratories (now Activis). Dr. Newman began his professional career at the National Jewish Medical and Research Center, Denver, Colorado.

These appointments will be invaluable as the Company seeks to grow and develop the full potential of RPL554 in respiratory disease to create significant shareholder value.

OUTLOOK

Verona Pharma is focused on implementing the strategy of creating a biopharmaceutical company focused on the development of high value, first-in-class drugs for chronic, debilitating specialist-treated respiratory diseases. The initial focus of the lead pipeline drug, RPL554, is to develop a nebulised treatment for hospitalised patients with acute exacerbations of COPD to provide immediate relief and, when used for an additional 30 days after discharge from hospital, reduce the rate of recurrence of COPD symptoms and subsequent re-admittance to hospital. RPL554's three-fold mechanisms of action, bronchodilation, anti-inflammatory and CFTR activation, means that the drug ultimately has the potential to benefit wider groups of patients with respiratory disorders not optimally treated with existing drugs, such as those with cystic fibrosis, and in the longer term potentially asthma. The compound could be used either alone or in combination with existing medicines. RPL554 could become a particularly attractive combination partner to currently used anti-muscarinic drugs, the mainstay treatment for COPD patients, as the Company has demonstrated a synergistic effect when these two drugs are used in combination.

The funds raised in March 2014 will enable Verona Pharma to accelerate the development programme for RPL554 over the next 12 to 18 months in a series of clinical phase 1 and 2 studies with the new formulation that has shown attractive properties. Complemented with pre-clinical activities these studies should position the drug as ready for Phase 2b in 2016. Importantly, strengthening of the IP coverage around RPL554 has provided longer patent protection and adds very significant value to the programme.

The Board believes that RPL554, with its unique bronchodilator, anti-inflammatory and CFTR activator properties, is capable of addressing specific patient groups that are currently under-treated and for which there is limited competition in the form of new types of bronchodilator drugs, and therefore presents a very attractive commercial opportunity for generating significant value for shareholders.

The Board also recognises that an experienced and resourceful commercial partner could bring significant value to the development of RPL554 for chronic maintenance treatment in COPD and potentially other respiratory diseases and therefore continues to be involved in business development discussions around the RPL554 programme. However, the Company intends to partner its drug candidates only when it can extract a commercially attractive return for the Company and its shareholders.

The Company will continue to operate with a strong focus and financial discipline, and remains very positive about its progress to date and the opportunities for its lead drug development programme.

We would like to thank the staff and Board members for all their contributions and shareholders for their continued support during a successful year.

Dr. David Ebsworth
Chairman

11 May 2015

Dr. Jan-Anders Karlsson
Chief Executive Officer

11 May 2015

The Directors present their strategic report together with the audited financial statements and auditors' report for the year ended 31 December 2014.

Principal activity

The Company was incorporated on 24 February 2005. On 18 September 2006 the Company successfully acquired all the shares of Rhinopharma Limited, a private company incorporated in Canada, and changed its name to Verona Pharma plc (the "Company" or the "Parent"). On 12 December 2014, the Company established an U.S subsidiary, Verona Pharma Inc., in the state of Delaware. The Parent, Rhinopharma Limited and Verona Pharma Inc. are collectively referred to as the "Group".

The principal activity of the Group is the development of novel, "first-in-class" drugs for the treatment of chronic respiratory diseases, such as chronic obstructive pulmonary disease (COPD), asthma and cystic fibrosis.

Review of the business and future prospects

The Chairman and Chief Executive Officer's joint statement describes the Group's activities and future prospects.

Key performance indicators ("KPIs")

The key performance indicators for the Group are as follows:

1. Development milestones – this operational KPI is used by the Board to monitor the performance of the Group's drug candidates through the planned clinical studies. Key development milestones achieved in 2014 include:

    - development of a novel commercial scalable formulation for inhalation by nebulisation of the lead molecule RPL554 and manufacture of clinical samples;

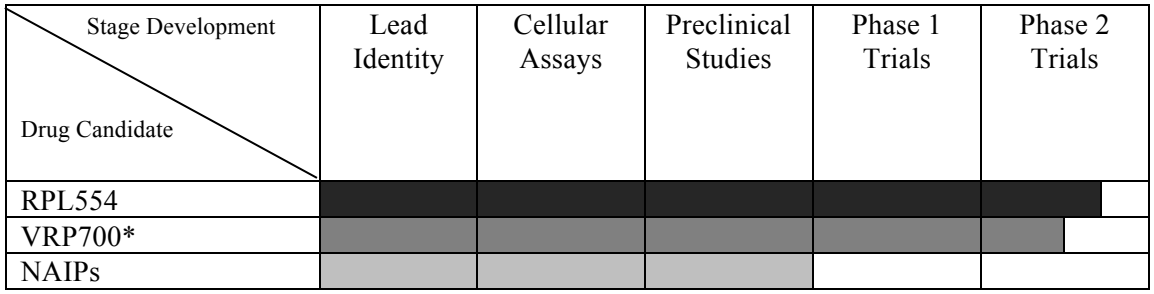
    - initiation of clinical trial with new formulation of RPL554 in tolerability study in healthy male subjects at MEU, Manchester;

    - completion of VRP700 Phase 2 clinical trial in patients with Idiopathic Pulmonary Fibrosis to evaluate efficacy of the drug as a treatment for chronic severe cough; and

    - obtained and published data on the effect of RPL554 on the CFTR channel that is defective in the airways of cystic fibrosis patients.

2. Cash flow – This financial KPI is used by the Board to monitor the Group's burn rate and the timing and requirement for future funding. The average monthly operating cash outflow in 2014 was £320,000 (2013: £195,000) and the net cash position at 31 December 2014 was £9.97 million. After taking into consideration the placing, subscription and open offer of £14.0 million completed in March 2014, it is estimated that the Group has funds allowing it to operate for more than 12 months as at the date of approval of this report assuming no acquisition of new intellectual properties and based on current cost expectations and level of operations.

Following is a clinical development chart showing the stage of development of the Group's drug candidates as at 31 December 2014:



*Available for licensing

The Group's strategy is to either enter into a licensing or partnership arrangement for the further development and commercialisation of its drug candidates at the end of clinical proof of concept and/or to develop drug candidates in-house for smaller, specialised disease indications. The timeline for entering into licensing arrangements is uncertain and depends on the Group's ability to find a suitable partner and successfully complete the due diligence and negotiation process.

Principal risks and uncertainties

There is a high level of risk in drug development. The Group's current drug development programmes are at an early stage. The RPL554 programme has completed Phase 1 and 2a with the original formulation and further Phase 1 and 2 human clinical trials are being undertaken with the new formulation. Whilst the Cough programme successfully completed a proof of concept clinical trial in 2011, it did not meet the endpoints of a follow-on study in patients with interstitial pulmonary fibrosis (IPF) in 2014. VRP 700 is available for licensing but it is uncertain that such an agreement will be achieved. The NAIPs programme is an early stage research project, and its safety and effectiveness have not yet been established. In addition, there are numerous regulatory approvals that must be obtained to test, manufacture and commercialise the proposed drug treatments. Even if such approvals are obtained, there is no certainty that the Group will be able to commercialise the drug treatments on commercially acceptable terms. The Group will require access to additional funding in the future. If it fails to obtain such funding the Group may need to delay or scale back some of its research and development programmes.

By order of the Board

Dr. Jan-Anders Karlsson
Chief Executive

11 May 2015

Results and dividends

The Group results for the year are set out on page 18. There was a loss for the year after taxation amounting to £2.76 million (2013: loss of £2.52 million), reflecting a planned increase in research and development expenditure £2.63m (2013: £1.66m). In view of the loss for the period, further planned expenditure on drug development and in the absence of distributable reserves the Directors cannot recommend the payment of a dividend.

Directors

The following Directors held office during the year:

Jan-Anders Karlsson	Claire Poll
David Ebsworth (appointed 1st December 2014)	Trevor Jones
Clive Page (resigned 1st December 2014)	Stuart Bottomley
Biresh Roy (appointed 30th September 2014)	Patrick Humphrey

Directors' interests

The beneficial and non-beneficial interests in the Company's shares of the Directors and their families were as follows:

Name	Held at 31 December 2014	Held at 31 December 2013
Stuart Bottomley	19,000,000	17,972,727
David Ebsworth	1,326,667	Nil
Jan-Anders Karlsson	1,709,091	1,709,091
Claire Poll	4,750,000	4,750,000
Trevor Jones	63,461	63,461
Patrick Humphrey	Nil	Nil
Biresh Roy	Nil	Nil

Share options

Share options held by directors at 31 December 2014 were as follows:

	At beginning of period	Granted/ exercised or expired in period	At end of period	Exercise price (£)	Exercisable at end of period
J-A Karlsson	5,000,000	-	5,000,000	0.05 - 0.15	3,333,335
J-A Karlsson	5,000,000	-	5,000,000	0.04	1,666,667
J-A Karlsson	-	3,000,000	3,000,000	0.035	-
C Poll	2,000,000	-	2,000,000	0.05	2,000,000
C Poll	2,500,000	-	2,500,000	0.04	833,334
C Poll	-	1,250,000	1,250,000	0.035	-
T Jones	2,000,000	-	2,000,000	0.05	2,000,000
T Jones	1,000,000	-	1,000,000	0.04	333,334
S Bottomley	2,000,000	-	2,000,000	0.05	2,000,000
S Bottomley	1,000,000	-	1,000,000	0.04	333,334
P Humphrey	1,000,000	(1,000,000)	-	0.175	-
P Humphrey	500,000	-	500,000	0.09	500,000
P Humphrey	1,000,000	-	1,000,000	0.04	333,334
B Roy	-	6,000,000	6,000,000	0.022	-

Report on Directors' remuneration and service contracts

The Remuneration Committee, consisting of two independent Non-Executive Directors and chaired by Dr. David Ebsworth, meets at least once a year (or more frequently as required). The Committee is responsible for the remuneration of the Executive Directors, including their benefits in kind, terms of employment and share options. The Executive Directors also consult the Committee in relation to the remuneration of senior employees and staff share option schemes. The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other companies. The service contracts of the Directors for director services are subject to a three-month termination period. There is a separate contract in place for the provision of consulting services by Claire Poll. The consulting contract with Claire Poll is in her own name and specifies a termination period of three months. The employment contract with Dr. Jan-Anders Karlsson is in his own name and the contract specifies a termination period of twelve months. The employment contract with Biresh Roy is in his own name and the contract specifies a termination period of six months.

The Committee aims to provide remuneration packages that are sufficient to attract, retain and motivate high-calibre Executive Directors who can deliver the Company's strategic objectives, reflecting the individual's experience and role within the Company. The Committee recognises that remuneration packages should be appropriately structured to include fixed and variable pay elements and a mixture of short, medium and long-term incentives in order to align the actions and interests of the Executive Directors with those of shareholders. To achieve this objective, the Committee takes account of shareholder views on remuneration policy and information on remuneration paid by other companies of a similar size and comparable industry sector in the UK. The Committee has engaged the services of an external adviser, New Bridge Street (a brand of Aon Hewitt Ltd, part of Aon plc) to provide such information and to advise the Committee on its remuneration policy effective from 1 January 2015.

Details of the Directors' emoluments for the year are set out below. An annual cash bonus is rewarded on the achievement of stretch objectives that support the Company's corporate goals and business strategy together with goals in relation to personal performance. Goals typically include progress in clinical development programs, cash flow management, pipeline development, partnering and investor relations. The CEO and CFO are required to invest a significant proportion of their after-tax bonus in purchasing shares in the Company and are required to build and retain a significant holding in the Company equivalent to at least 100% and 50% respectively of their base salary. Share option awards are made at the discretion of the Committee and are designed to encourage strong corporate performance. Awards typically vest over a three year period. Share options granted to Executive Directors in 2015 vest 50% two years after the date of grant and 50% three years after the date of grant. The Committee imposes performance conditions for share options by setting the exercise price at a premium to the share price at the date of grant.

Directors' emoluments

Executive	Base Salary/Fee £	Bonus £	Employer's NI/benefit* £	Share based payment £	2014 Total £	2013 Total £
Jan-Anders Karlsson	180,000	81,667*	64,901	63,889	390,457	447,083
Biresh Roy	47,501	-	6,501	4,053	58,055	-
Claire Poll	70,000	7,500	-	17,287	94,787	50,172
Non-Executive						
David Ebsworth	6,667	-	540	-	7,207	-
Clive Page	86,167	5,000	4,652	17,287	113,106	56,870
Trevor Jones	20,000	-	1,662	6,362	28,024	25,939
Stuart Bottomley	20,000	-	1,662	6,362	28,024	25,939
Patrick Humphrey	20,000	-	1,662	6,362	28,024	28,425
	450,335	94,167	81,580	121,602	747,684	634,428

*Achieved 80% of target bonus against 2013 objectives.
*Included in £64,901 for Dr. Karlsson is £26,265 in health insurance benefit.
*Included in £6,501 for Biresh Roy is £534 in health insurance benefit.

Pensions

The Group does not operate a money purchase/defined benefit pension scheme for Directors or employees.

Political and charitable contributions

There were no political or charitable contributions made by the Company during the year ended 31 December 2014.

Significant share holders

The Company has been notified, in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules, of the under noted interests in its ordinary shares as at 6 May 2015 of 3% shareholders and above:

	Number of Ordinary shares	% of Share Capital
The Wales Life Sciences Investment Fund LP	210,000,000	20.8
Aviva plc and subsidiaries	182,250,000	18.0
Fidelity	76,394,918	7.6
Vivo Capital	64,200,753	6.4

Statement of Directors' responsibilities

The Directors are responsible for preparing their annual reports and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs").

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Directors are aware:

1. there is no relevant audit information of which the Company's auditors are unaware; and
2. the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that PricewaterhouseCoopers be appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

Accompanying this report is the notice of Annual General Meeting of the Company which sets out the resolutions relating to the business which the Company proposes to conduct at the meeting. The meeting will be held at 10.30am on 11th June 2015 at One America Square, Crosswall, London EC3N 2SG.

By order of the Board.

Dr. Jan-Anders Karlsson
Chief Executive

11 May 2015

Board of Directors

The Board meets at regular intervals, normally no less than six times a year. The Board is responsible for approving company policy and strategy. The Board consists of seven members, with Dr. Jan-Anders Karlsson, Biresh Roy and Claire Poll as executive directors and Dr. David Ebsworth, Prof. Trevor Jones, Stuart Bottomley and Dr. Patrick Humphrey as non-executive directors. The Chairman of the Board is Dr. David Ebsworth and the Company's business is run by Dr. Jan-Anders Karlsson (CEO), Biresh Roy (CFO) and Claire Poll (Executive Director).

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and to review its effectiveness. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to mitigate operational risks.

An Audit Committee has been established, chaired by Stuart Bottomley and with Dr. Ebsworth and Ms. Poll as members. The Committee meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, as well as meeting the auditors and reviewing any reports prepared by auditors.

At the present time, the size of the Group does not justify an internal audit function. The key features of the Group's system of internal control are as follows:

- the Company is headed by an effective Board, which leads and controls the Group;
- there is a clear division of responsibilities in running the Board and running the Group's business;
- the Board includes a balance of executive and non-executive directors; and
- the Board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties.

The Company has also established a Remuneration Committee and a Nomination and Corporate Governance Committee. Both of these Committees are chaired by Dr. David Ebsworth and have Dr. Humphrey and Mr. Bottomley as members. Each Committee meets at least once a year. The Nomination and Corporate Governance Committee is responsible for overseeing the Company's corporate governance capability, including evaluating the structure, size and composition of the Board and succession planning of Board members and senior management.

Going concern

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Board will continue to monitor the progress of the development of its programmes and the financial position in order to ensure that the Group continues to have sufficient funding to continue in business. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

Communication with shareholders

The Board has a strong commitment to the maintenance of good investor relations with its shareholders, and the Directors will make themselves available to answer questions at the Annual General Meeting. Shareholders are encouraged to contact the Company via email or telephone if they have any questions.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF VERONA PHARMA PLC
FOR THE YEAR ENDED 31 DECEMBER 2014

We have audited the financial statements of Verona Pharma plc for the year ended 31 December 2014 that comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibility set out on page 14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Colin Wright
Senior Statutory Auditor

for and on behalf of
UHY Hacker Young

Chartered Accountants
Statutory Auditors

Quadrant House
4 Thomas More Square
London E1W 1YW

11 May 2015

VERONA PHARMA PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Year ended 31 December 2014 £	Year ended 31 December 2013 £
Continuing operations			
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Research and development		(2,634,848)	(1,656,490)
Administration expenses		(1,157,925)	(1,160,294)
Operating loss	4	(3,792,773)	(2,816,784)
Finance revenue	6	29,978	2,632
Loss before taxation		(3,762,795)	(2,814,152)
Taxation – credit	7	1,004,065	289,400
Loss for the year		(2,758,730)	(2,524,752)
Other comprehensive income		-	-
Total comprehensive loss for the year		(2,758,730)	(2,524,752)
Loss per ordinary share – basic and diluted (pence)	2	(0.32)p	(0.74)p

The results shown above relate entirely to continuing operations and are attributable to equity holders of the Company.

VERONA PHARMA PLC
GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	31 December 2014 £	31 December 2013 £
ASSETS			
Non-current assets			
Plant and equipment	12	21,847	27,647
Intangible assets – patents	13	380,540	207,144
Goodwill	14	1,469,112	1,469,112
		1,871,499	1,703,903
Current assets			
Trade and other receivables	9	1,287,535	249,639
Cash and cash equivalents	10	9,969,759	603,791
		11,257,294	853,430
Total assets		13,128,793	2,557,333
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Share capital	15	1,009,923	372,598
Share premium		26,650,098	14,184,412
Share-based payment reserve		677,946	640,579
Retained losses		(15,733,487)	(13,129,576)
Total equity		12,604,480	2,068,013
Current liabilities			
Trade and other payables	11	524,313	489,320
Total liabilities		524,313	489,320
Total equity and liabilities		13,128,793	2,557,333

The financial statements were approved by the Board of Directors on 11 May 2015 and signed on its behalf by:

Dr. Jan-Anders Karlsson
Chief Executive

Biresh Roy
Chief Financial Officer

Company Number: 05375156

VERONA PHARMA PLC
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	31 December 2014 £	31 December 2013 £
ASSETS			
Non-current assets			
Plant and equipment	12	21,847	27,647
Intangible assets – patents	13	380,540	207,144
Goodwill	14	1,453,569	1,453,569
Investment	8	2	1
		1,855,958	1,688,361
Current assets			
Trade and other receivables	9	1,287,535	248,917
Cash and cash equivalents	10	9,968,483	602,503
		11,256,018	851,420
Total assets		13,111,976	2,539,781
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	15	1,009,923	372,598
Share premium account		26,650,098	14,184,412
Share-based payment reserve		677,946	640,579
Retained losses		(15,750,305)	(13,147,128)
Total equity		12,587,662	2,050,461
Current liabilities			
Trade and other payables	11	524,314	489,320
Total liabilities		524,314	489,320
Total equity and liabilities		13,111,976	2,539,781

The financial statements were approved by the Board of Directors on 11 May 2015 and approved on its behalf by:

Dr. Jan-Anders Karlsson
Chief Executive

Biresh Roy
Chief Financial Officer

Company Number: 05375156

VERONA PHARMA PLC
GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Year ended 31 December 2014 £	Year ended 31 December 2013 £
Net cash outflow from operating activities	16	(3,833,926)	(2,343,944)
Cash inflow from taxation		293,263	289,400
Cash flow from investing activities			
Interest received		24,178	2,642
Purchase of plant and equipment		(4,882)	(2,033)
Payment for patents		(215,676)	(105,587)
Net cash outflow from investing activities		(196,380)	(104,978)
Cash flow from financing activities			
Financing costs		-	-
Net proceeds from issue of shares		13,103,011	1,802,443
Net cash inflow from financing activities		13,103,011	1,802,443
Net increase/(decrease) in cash and cash equivalents		9,365,968	(357,079)
Cash and cash equivalents at the beginning of the year		603,791	960,870
Cash and cash equivalents at the end of the year	10	9,969,759	603,791

VERONA PHARMA PLC
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Year ended 31 December 2014 £	Year ended 31 December 2013 £
Net cash outflow from operating activities	16	(3,833,914)	(2,332,329)
Cash inflow from taxation		293,263	289,400
Cash flow from investing activities			
Interest received		24,178	2,642
Purchase of plant and equipment		(4,882)	(2,033)
Payments for patents		(215,676)	(105,587)
Advance to subsidiary		-	(9,188)
Net cash outflow from investing activities		(196,380)	(114,166)
Cash flow from financing activities			
Financing cost		-	-
Net proceeds from issue of shares		13,103,011	1,802,443
Net cash inflow from financing activities		13,103,011	1,802,443
Net increase/(decrease) in cash and cash equivalents		9,365,980	(354,652)
Cash and cash equivalents at the beginning of the year		602,503	957,155
Cash and cash equivalents at the end of the year	10	9,968,483	602,503

VERONA PHARMA PLC
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital £	Share premium £	Option reserve £	Retained losses £	Total £
Balance at 1 January 2013	307,203	12,447,364	470,577	(10,621,672)	2,603,472
Loss for the year	-	-	-	(2,524,752)	(2,524,752)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,524,752)	(2,524,752)
Issue of shares	65,395	1,894,767	-	-	1,960,162
Share issue costs	-	(157,719)	-	-	(157,719)
Share-based payments	-	-	186,850	-	186,850
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(16,848)	16,848	-
Balance at 31 December 2013	372,598	14,184,412	640,579	(13,129,576)	2,068,013
Balance at 1 January 2014	372,598	14,184,412	640,579	(13,129,576)	2,068,013
Loss for the year	-	-	-	(2,758,730)	(2,758,730)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,758,730)	(2,758,730)
Issue of shares	637,325	13,383,821	-	-	14,021,146
Share issue costs	-	(918,135)	-	-	(918,135)
Share-based payments	-	-	192,186	-	192,186
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(154,819)	154,819	-
Balance at 31 December 2014	1,009,923	26,650,098	677,946	(15,733,487)	12,604,480

VERONA PHARMA PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital £	Share premium £	Option reserve £	Retained losses £	Total £
Balance at 1 January 2013	307,203	12,447,364	470,577	(10,641,741)	2,583,403
Loss for the year	-	-	-	(2,522,235)	(2,522,235)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,522,235)	(2,522,235)
Issue of shares	65,395	1,894,767	-	-	1,960,162
Share issue costs	-	(157,719)	-	-	(157,719)
Share-based payments	-	-	186,850	-	186,850
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(16,848)	16,848	-
Balance at 31 December 2013	372,598	14,184,412	640,579	(13,147,128)	2,050,461
Balance at 1 January 2014	372,598	14,184,412	640,579	(13,147,128)	2,050,461
Loss for the year	-	-	-	(2,757,996)	(2,757,996)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,757,996)	(2,757,996)
Issue of shares	637,325	13,383,821	-	-	14,021,146
Share issue costs	-	(918,135)	-	-	(918,135)
Share-based payments	-	-	192,186	-	192,186
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(154,819)	154,819	-
Balance at 31 December 2014	1,009,923	26,650,098	677,946	(15,750,305)	12,587,662

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, 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. Going concern

During the year ended 31 December 2014 the Group made a loss of £2,758,730 (2013: a loss of £2,524,752). At the year-end date the Group had net assets of £12,604,480 (2013: £2,068,013) of which £9,969,759 was cash and cash equivalents. The operation of the Group is currently being financed from funds that the Company raised from private and public share placings. On 24 March 2014 the Company announced that it had raised £14.0 million in gross proceeds from a placing, subscription and open offer. These funds will be used primarily to support the development of RPL554 in severe COPD as well as corporate and general administrative expenditures.

The Group's capital management policy is to only raise sufficient funding to finance the Group's near term research objectives. Upon completion of objectives, or identification of new projects, the Directors will seek new funding to finance the next stage of the research programme or the new projects. The Directors believe that the Group has sufficient funds for it to comply with its foreseeable commitments and, accordingly, are satisfied that the going concern basis remains appropriate for the preparation of these financial statements.

1.3. Basis of consolidation

These group financial statements include the accounts of Verona Pharma plc and its wholly-owned subsidiaries Rhinopharma Limited and Verona Pharma Inc. The purchase method of accounting is used to account for the acquisition of Rhinopharma Limited.

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 and Verona Pharma Inc. adopt the same accounting policies as the Company.

1.4. Foreign currency translation

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The financial statements are presented in pounds sterling ("£"), which is the functional and presentational currency of the Company and the presentational currency of the Group.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the original transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income.

1.5. 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.

1.6. Deferred Taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

1.7. Research and development costs

Research costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets generally accepted accounting criteria for capitalisation and amortisation. At 31 December 2014 no development costs have been capitalised.

1.8. Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the expected useful lives as follows:

Computer hardware	3 years
Computer software	2 years
Office furniture and equipment	5 years

1.9. Intangible assets

Patent costs associated with the preparation, filing, and obtaining of patents are capitalised and amortised on a straight-line basis over the estimated useful lives of the patents of ten years.

1.10. Impairment of intellectual properties

The carrying value of patents and goodwill do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialisation of products based on these intellectual properties. Management reviews the intellectual properties for impairment whenever events or changes in circumstances indicate that full recoverability is questionable, and such review is performed on at least an annual basis. Management measures any potential impairment by comparing the carrying value to the discounted amounts of expected future cash flows.

1.11. Share based payments

The Company made share-based payments to certain directors and advisers by way of issue of share options. The fair value of these payments is calculated by the Company using the Black-Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

1.12. 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 that should be carried in the statement of financial position. Further details of the Group's assessment of the carrying value of goodwill are disclosed in note 14.

(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, vesting date of options and number of options likely to vest. If these estimates vary from actual occurrence, this will impact on the value of the equity carried in the reserves. Further details of the Group's estimation of share based payments are disclosed in note 18.

1.13. New standards and interpretations

The following new standards and amendments are mandatory for the first time for financial periods commencing on or after 1 January 2014:

IFRS 10 – Consolidated Financial Statements

The standard sets out the requirements for the preparation and presentation of consolidated financial statements, requiring the Company to consolidate entities that it controls. Transitional guidance applies.

IFRS 11 – Joint Arrangements

The standard sets out the accounting by entities that jointly control an arrangement. Joint control involves the contractual agreed sharing of control and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly). Transitional guidance applies.

IFRS 12 – Disclosure of Interests in Other Entities

This is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives. Transitional guidance applies.

IAS 27 – Separate Financial Statements (2011)

The standard outlines the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments. The standard also outlines the accounting requirements for dividends and contains numerous disclosure requirements.

IAS 28 – Investments in Associates and Joint Ventures (2011)

The standard outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures.

Amendments to IAS 32 – Offsetting financial assets and financial liabilities

The amendments to the standard apply to presentation in order to clarify certain aspects because of the diversity in the application of the requirements on offsetting.

Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets

The amendments remove the requirement to disclose the recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite life intangible assets where there has been no impairment. Where an impairment loss has been recognised or reversed, disclosure of the recoverable amount or how fair value less costs of disposal have been measured is required.

1.14. New standards and interpretations not applied during the year

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

Standard	Subject	Effective from
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2017
Annual Improvements to IFRSs (2010 – 2012)		1 July 2014
Annual Improvements to IFRSs (2011 – 2013)		1 July 2014
Annual Improvements to IFRSs (2012 – 2014)		1 January 2016

2. Earnings per share

Basic loss per share of 0.32p (2013: 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 866,743,656 (2013: 341,564,623).

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

3. Segmental information

The Group has determined that its operating segments be reported on a product pipeline basis as this best reflects the Group's activity cycle. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

The Group's product pipeline is dedicated to the research, discovery and development of new therapeutic drugs for the treatment of acute and chronic respiratory diseases. During 2014 there were three products: RPL554, VRP700 and NAIPs. RPL554 and VRP700 having reached the clinical stage, with RPL554 having successfully completed Phase 1 and 2 trials. VRP 700 having completed two phase 2 trials. NAIPs were in the basic research phase.

Segment information by operating segment is as follows:

	Clinical 2014 £	Clinical 2013 £	Basic research 2014 £	Basic research 2013 £
Income statement information				
Research and development	(2,634,848)	(1,648,083)	-	(8,407)
Amortisation of patent	(38,046)	(19,951)	(4,233)	(3,772)

Segment loss	(2,672,894)	(1,668,034)	(4,233)	(12,179)
Assets information				
Patent	356,244	187,379	24,296	19,765
Goodwill	1,469,112	1,469,112	-	-
Segment assets	1,825,356	1,656,491	24,296	19,765

3. Segmental information (continued)

	2014 £	2013 £
Reconciliation of segment result		
Loss per reportable segment – Clinical	(2,672,894)	(1,668,034)
Loss per segment – Basic research	(4,233)	(12,179)
Total loss for reportable segments	(2,677,127)	(1,680,213)
Amortisation of non-segment assets	(10,683)	(13,870)
Unallocated administration expense	(1,104,963)	(1,122,701)
Group operating loss	(3,792,773)	(2,816,784)

At the end of the financial year, the Group was still in the early development stage and therefore had no turnover in either 2013 or 2014.

Reconciliation of segment assets		
Assets per reportable segment – Clinical	1,825,356	1,656,491
Assets per reportable segment – Basic research	24,296	19,765
Total assets for reportable segments	1,849,652	1,676,256
Unallocated non-current assets	21,847	27,647
Unallocated current assets	11,257,294	853,430
Group total assets	13,128,793	2,557,333

Segment information by geographical segment for 2014 is as follows:

Geographical segment (Group)	**United Kingdom** **£**	**North America** **£**	**Total** **£**
Research and development	(2,634,848)	-	(2,634,848)
Administration expenses	(1,157,191)	(734)	(1,157,925)
Finance revenue	29,978	-	29,978
Loss before taxation	(3,762,061)	(734)	(3,762,795)
Tangible assets	21,847	-	21,847
Intangible assets	380,540	-	380,540
Trade and other receivables	1,287,535	1	1,287,536
Cash and cash equivalents	9,968,483	1,276	9,969,759
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(524,314)	-	(514,314)
Net assets	12,603,203	1,277	12,604,480

3. Segmental information (continued)

Segment information by geographical segment for 2013 is as follows:

Geographical segment (Group)	United Kingdom £	North America £	Total £
Research and development	(1,656,490)	-	(1,656,490)
Administration expenses	(1,148,589)	(11,705)	(1,160,294)
Finance revenue	2,632	-	2,632
Loss before taxation	(2,802,447)	(11,705)	(2,814,152)
Tangible assets	27,647	-	27,647
Intangible assets	207,144	-	207,144
Trade and other receivables	248,917	722	249,639
Cash and cash equivalents	602,503	1,288	603,791
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(489,320)	-	(489,320)
Net assets	2,066,003	2,010	2,068,013

4. Operating loss

	2014 £	2013 £
Group		
This is stated after charging/(crediting):		
Foreign exchange loss	1,571	4,746
Profit on disposal of fixed assets	-	(3,632)
Research and development costs	2,634,848	1,656,490
Share-based payments	192,186	186,850
Auditors' remuneration for audit services		
- Group and Company audit	22,750	18,750
Auditors' remuneration for non audit services		
- Taxation consultancy	2,500	3,250
Total auditors' remuneration	25,250	22,000

5. Employee costs	2014 £	2013 £
Group		
Wages and salaries	254,935	147,296
Social security costs	28,582	9,854
	283,517	157,150

Remuneration of Directors is separately disclosed in the Report on Directors' remuneration.

	2014 Number	2013 Number
Group		
The average number of employees including directors during the year was:	11	10

6. Finance revenue	2014 £	2013 £
Group		
Bank interest	29,978	2,631

7. Taxation	2014 £	2013 £
Analysis of tax credit for the year		
Current tax:		
UK corporation tax at 21.5% (2013: 23.25%)	(641,652)	-
Prior year adjustment	(362,413)	(289,400)
Current tax credit	(1,004,065)	(289,400)
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(3,762,795)	(2,814,152)
Multiplied by standard rate of corporation tax of 21.5% (2013: 23.25%)	(809,001)	(654,290)
Effects of:		
Non deductible expenses	2,194	46,430
Research & Development Incentive	(201,938)	-
Timing differences not recognised	38,026	3,225
Tax losses carried forward	329,067	604,635
Prior year adjustment	(362,413)	(289,400)
Current tax credit	(1,004,065)	(289,400)

The current year tax credit represents the research and development tax credit receivable on qualifying expenditure incurred during the year, £641,652, coupled with a prior year adjustment of £362,413.

7. Taxation (continued)

Factors that may affect future tax charges
At the year-end 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 at 20% (2013: 20%) is estimated to be £2,464,229 (2013: £2,748,000).

8. Subsidiary entities

The Company currently has two wholly owned subsidiaries, Rhinopharma Limited and Verona Pharma Inc. 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 drugs to treat allergic rhinitis and other respiratory diseases prior to its acquisition by the Company on 18 September 2006.

Verona Pharma Inc. was incorporated on the 12 December 2014 under the laws of the State of Delaware, USA.

9. Trade and other receivables

	2014	2013
	£	£
Group		
Other receivables	922,934	107,235
Deferred financing costs	-	-
Prepayments and accrued income	364,601	142,404
	1,287,535	249,639
Company		
Other receivables	922,934	107,235
Deferred financing costs	-	-
Prepayments and accrued income	364,601	141,682
	1,287,535	248,917

10. Cash and cash equivalents

	2014	2013
	£	£
Group		
Cash at bank and in hand	9,969,759	603,791
Cash equivalents	-	-
	9,969,759	603,791
Company		
Cash at bank and in hand	9,968,483	602,503
Cash equivalents	-	-
	9,968,483	602,503

11. Trade and other payables

	2014	2013
	£	£
Group		
Trade payables	366,626	329,757
Other payables	31,493	18,800
Accruals	126,194	140,763
	524,313	489,320
Company		
Trade payables	366,626	329,757
Other payables	31,494	18,800
Accruals	126,194	140,763
	524,314	489,320

12. Plant and equipment

Group and Company	Computer hardware	Computer software	Office equipment	Total
	£	£	£	£
Cost				
At 1 January 2013	42,114	23,684	36,461	102,259
Additions in 2013	2,033	-	-	2,033
Disposals in 2013	(7,477)	-	-	(7,477)
At 31 December 2013	36,670	23,684	36,461	96,815
Depreciation				
At 1 January 2013	39,972	16,693	6,110	62,775
Charge for 2013	1,750	5,039	7,081	13,870
Disposals in 2013	(7,477)	-	-	(7,477)
At 31 December 2013	34,245	21,732	13,191	69,168
Net book value				
At 31 December 2013	2,425	1,952	23,270	27,647
Net book value				
At 31 December 2012	2,142	6,991	30,351	39,484

12. Plant and equipment (continued)

Group and Company	Computer hardware	Computer software	Office equipment	Total
	£	£	£	£
Cost				
At 1 January 2014	36,670	23,684	36,461	96,815
Additions in 2014	4,632	250	-	4,882
Disposals in 2014	-	-	-	-
At 31 December 2014	41,302	23,934	36,461	101,697
Depreciation				
At 1 January 2014	34,245	21,732	13,191	69,168
Charge for 2014	1,645	2,014	7,023	10,682
Disposals in 2014	-	-	-	-
At 31 December 2014	35,890	23,746	20,214	79,850
Net book value				
At 31 December 2014	5,412	188	16,247	21,847
Net book value				
At 31 December 2013	2,425	1,952	23,270	27,647

13. Intangible assets

Group and Company	Patents
	£
Cost	
At 1 January 2013	194,306
Additions in 2013	105,587
At 31 December 2013	299,893
Amortisation	
At 1January 2013	69,026
Charge for 2013	23,723
Impairment during 2013	-
At 31 December 2013	92,749
Net book value	
At 31 December 2013	207,144
Net book value	
At 31 December 2012	125,280

13. Intangible assets (continued)

Group and Company	Patents £
Cost	
At 1 January 2014	299,893
Additions in 2014	215,676
At 31 December 2014	515,569
Amortisation	
At 1 January 2014	92,749
Charge for 2014	42,280
Impairment during 2014	-
At 31 December 2014	135,029
Net book value	
At 31 December 2014	380,540
Net book value	
At 31 December 2013	207,144

14. Goodwill

	2014 £	2013 £
Group		
Goodwill	1,469,112	1,469,112
Company		
Goodwill	1,453,569	1,453,569

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. Goodwill is capitalised and allocated to appropriate research projects, in Verona's case RPL554. They are deemed to have indefinite useful life and so are not amortised. Annual impairment test of the research projects ('RPs') is performed by comparing the expected recoverable amount of the RPs to the carrying amount of the RPs.

The recoverable amount of the RPs is based on value in use calculations. The use of this method requires the estimation of risk-adjusted future cash flows discounted using suitable pre-tax discount rate, and a pre-tax discount rate of 10% has been used. The key assumptions on which the cash flow projections were based include market size, market penetration, pre-tax discount rate, probability, estimated revenue and royalties. Sources of information for these key assumptions have been determined by using a combination of external market information, industry forecasts and management's expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

14. Goodwill (continued)

Management has performed sensitivity analysis on the key assumptions including reducing the estimated revenue and probability by 50%. However, the changes would not cause the carrying amount to exceed their recoverable amount. Hence, the Company concluded that no impairment was required as at 31 December 2014.

15. Called up share capital

The movements in the share capital are summarised below:

	Number of shares	£
Authorised:		
10,000,000,000 Ordinary shares of 0.1p each	10,000,000,000	10,000,000
Allotted, called up and fully paid:		
Ordinary shares as at 1 January 2013	307,204,395	307,203
Ordinary shares issued from share placement	65,394,255	65,395
As at 31 December 2013	372,598,650	372,598
Ordinary shares issued from share placement	298,750,000	298,750
Ordinary shares issued from share subscription	292,000,000	292,000
Ordinary shares issued from share open offer	46,574,831	46,575
As at 31 December 2014	1,009,923,481	1,009,923

The following issues of new shares took place during the year ended 31 December 2014:

On the 24 March 2014 the Company raised £14.0 million in gross proceeds from a placing, subscription and open offer on 24 March 2014. 637,324,831 new Ordinary shares of 0.1p each in the Company were issued fully paid for 2.2 pence per share.

16. Net cash outflow from operating activities

	2014 £	2013 £
Group		
Operating loss	(3,792,773)	(2,816,784)
Cost of issuing share options	192,186	186,850
Increase in trade and other receivables	(321,294)	(41,598)
Increase in trade and other payables	34,993	289,995
Depreciation of plant and equipment	10,682	13,870
Amortisation of intangible assets	42,280	23,723
Net cash outflow from operating activities	(3,833,926)	(2,343,944)
Company		
Operating loss	(3,792,039)	(2,814,267)
Cost of issuing share options	192,186	186,850
Increase in trade and other receivables	(322,016)	(41,902)
Increase in trade and other payables	34,993	290,209
Provision for amounts advanced to subsidiary	-	9,188
Depreciation of plant and equipment	10,682	13,870
Amortisation of intangible assets	42,280	23,723
Net cash outflow from operating activities	(3,833,914)	(2,332,329)

17. Related parties transactions

The Company was charged £49,500 (2013: £27,000) by Gryon Consulting Limited, a company of which Prof. Clive Page is a Director. At the year end, the Company owed £Nil (2013: £Nil) to this related party.

The Company was charged £204,267 by Arthurian Life Sciences Limited, a company of which Prof. Trevor Jones is a Director. At the year end, the Company owed £23,040 to this related party (2013: £Nil). Arthurian Life Sciences Limited acts as General Partner for the Wales Life Sciences Investment Fund, which itself is a substantial shareholder in the Company.

The Company was charged £154,524 by Simbec-Orion, a company of which Prof. Trevor Jones is a Director. At the year end, the Company owed £Nil to this related party (2013: £Nil).

18. Share-based payments charge

Included within administration expenses is a charge of £192,187 (2013: £186,850) for issuing share options. The share based payment charge represents the current year's allocation of the expense for relevant share options between 2012 and 2014. All options issued prior to 2012 are fully expensed. The Company grants share options under an unapproved share option plan (the 'Unapproved Plan') and under tax efficient Enterprise Management Incentive arrangements (the 'EMI Plan'). Under the Unapproved Plan, options are granted to employees, directors and consultants to acquire shares at a price to be determined by the Board. In general, options are granted at a premium to the share price at the date of grant, vest over three years and are exercisable during a period ending ten years after the date of grant. Options are also issued to advisors under the Unapproved Plan: such options generally vest immediately and are exercisable between one and two years after grant. Under the EMI Plan, options are granted to employees and directors who are contracted to work at least 25 hours a week for the Company or for at least 75% of their working time. The options granted under the EMI Plan will be exercisable at a price and in accordance with a vesting schedule determined by the Board at the time of grant and will have an exercise period of 10 years from the date of grant.

The Company granted 9,500,000 (2013: 2,500,000) share options under the EMI Plan and 15,500,000 (2013: 18,655,717) share options under the Unapproved Plan during the current year with total fair values estimated using the Black-Scholes option-pricing model of £240,163 (2013: £352,616). The cost is amortised over the vesting period of the options on a straight-line basis and £84,670 is included in the charge to administration expenses noted above. The following assumptions were used for the Black-Scholes valuation of share options granted in 2014, 2013, and 2012.

	EMI Plan Issued in 2014	Unapproved Plan Issued in 2014	
Year/Type	**Employees**	**Employees**	**Advisors**
Options granted	9,500,000	5,500,000	10,000,000
Risk-free interest rate	2.46-2.53%	2.53%	1.71%
Expected life of options	10 years	10 years	4 years
Annualised volatility	70.6-78.9%	70.6%	89.5%
Dividend rate	0.00%	0.00%	0.00%

	EMI Plan Issued in 2013	Unapproved Plan Issued in 2013	
Year/Type	**Employees**	**Employees**	**Advisors**
Options granted	2,500,000	13,000,000	5,655,717
Risk-free interest rate	2.0-2.8%	1.7-2.3%	0.4-0.5%
Expected life of options	10 years	10 years	2 -3years
Annualised volatility	53.3-72.4%	80.0-81.9%	70.5-122.1%
Dividend rate	0.00%	0.00%	0.00%

	EMI Plan Issued in 2012	Unapproved Plan Issued in 2012	
Year/Type	**Employees**	**Employees**	**Consultants**
Options granted	5,000,000	300,000	300,000
Risk-free interest rate	0.97%	0.97%	0.97%
Expected life of options	10 years	10 years	5 years
Annualised volatility	75.56%	82.36%	82.36%
Dividend rate	0.00%	0.00%	0.00%

18. Share-based payments charge (continued)

The Company had the following share options movements in the year:

		Number of options					
Year of issue	**Exercise price (pence)**	**At 1 January 2014**	**Options granted**	**Options exercised**	**Options lapsed**	**At 31 December 2014**	**Expiry date**
2006	5	10,000,000	-	-	-	10,000,000	18 September 2016*
2009	4	200,000	-	-	(200,000)	-	8 January 2014
2009	17.5	1,000,000	-	-	(1,000,000)	-	11 September 2014
2010	9	800,000	-	-	(300,000)	500,000	15 June 2015
2012	5	-	-	-	-	-	7 December 2013**
2012	5-15	5,000,000	-	-	-	5,000,000	1 June 2022***
2012	5	600,000	-	-	(600,000)	-	23 October 2022
2013	4.8	5,000,000	-	-	-	5,000,000	31 January 2016**
2013	4	655,717	-	-	-	655,717	31 January 2015**
2013	4	5,000,000	-	-	-	5,000,000	15 April 2023
2013	4	1,000,000	-	-	-	1,000,000	1 June 2023***
2013	4	8,000,000	-	-	-	8,000,000	29 July 2023
2013	4	500,000	-	-	(500,000)	-	21 August 2023***
2013	4	1,000,000	-	-	(1,000,000)	-	1 September 2023***
2014	3.5	-	5,500,000	-	-	5,500,000	15 May 2024
2014	3.5	-	3,500,000	-	-	3,500,000	15 May 2024***
2014	2.2	-	6,000,000	-	-	6,000,000	26 September 2024***
2014	2.2-3.5	-	10,000,000	-	-	10,000,000	6 August 2018
Total		38,755,717	25,000,000	-	(3,600,000)	60,155,717	

18. Share-based payments charge (continued)

*10,000,000 directors' options with expiry date on 18 September 2011 were extended for five years to 18 September 2016.

**options granted to agents upon closing of a Placing or financing facility.

***options granted under the EMI Plan.

Outstanding and exercisable share options by Plans at 31 December 2014

Plan	Outstanding	Exercisable	WAEP (pence)
Unapproved	44,655,717	30,489,054	4.0
EMI	15,500,000	3,666,669	4.9
Total	60,155,717	34,155,723	4.2

The weighted average exercise price (WAEP) of options at the year-end is as follows:

	Number of options	Weighted average exercise price (pence)
As at 1 January 2013	19,600,604	6.9
Options granted in 2013:		
Employees and consultants	2,500,000	4.0
Directors	13,000,000	4.0
Placing agent	5,655,717	4.7
Options lapsed in the year	(2,000,604)	4.0
As at 31 December 2013	38,755,717	5.5
Options granted in 2014:		
Employees	3,500,000	3.5
Directors	11,500,000	2.8
Advisor	10,000,000	2.6
Options lapsed in the year	(3,600,000)	8.3
As at 31 December 2014	60,155,717	4.2
Exercisable at 31 December 2014	34,155,723	4.6

19. Loss of the parent company

The Parent has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 not to present an income statement for the year. The Parent Company's loss for the year was £2,757,996 (2013: loss of £2,522,235), which has been included in the Group's income statement.

20. Control

The Company is not under the control of any individual or group of connected parties.

21. Financial commitments

As at 31 December 2014 the Group and Company were committed to making the following payments under non-cancellable operating leases in the year to 31 December 2014.

	Land and Buildings	
	2014	2013
Operating leases which expire:	£	£
Within one year	151,248	22,640

22. 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 2014, cash and cash equivalents include €8,520 and CAD$2,304, and accounts payable and accrued liabilities include balances of €84,979, US$13,967 and SEK24,000.

(d) Financial risk management

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to further financial risks as the business develops.

(e) 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.

22. Financial instruments (continued)

(f) Interest rate risk

At 31 December 2014, the Group had cash deposits of £9,969,759 (2013: £603,791). The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows:

Financial Asset	Floating interest rate 2014 £	Fixed Interest rate 2014 £	Floating interest rate 2013 £	Fixed interest rate 2013 £
Cash deposits	101,508	9,868,251	603,791	-

23. Subsequent events

There were no material events post balance sheet date that management are aware of that would give rise to a contingent liability.