Company Number 05375156

VERONA PHARMA PLC

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

VERONA PHARMA PLC

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors	David Ebsworth (Non-Executive Chairman) Jan-Anders Karlsson (Chief Executive Officer) Ken Cunningham Rishi Gupta (appointed 29 July 2016) Patrick Humphrey Mahendra Shah (appointed 29 July 2016) Andrew Sinclair (appointed 29 July 2016) Vikas Sinha (appointed 12 September 2016) Anders Ullman
Company Secretary	Ben Harber
Registered Office	One Central Square Cardiff CF10 1FS
Company Number	05375156
Auditors	PricewaterhouseCoopers LLP One Kingsway Cardiff CF10 3PW
Nominated Adviser and Broker	N+1 Singer One Bartholomew Lane London EC2N 2AX
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

OPERATIONAL HIGHLIGHTS

- Reported positive results from "add-on" Phase 2 study with RPL554 in COPD patients. Data continues to suggest drug could be meaningful new addition, alone or in combination, for the treatment of COPD

    - Primary objective of study met; RPL554 produced a highly significant ($P \leq 0.001$) and a clinically meaningful additional (>50%) bronchodilation on top of the administered standard of care bronchodilators, salbutamol or ipratropium bromide
    - The bronchodilator effects seen with the combinations were significantly ($P \leq 0.001$) larger than those of either salbutamol or ipratropium bromide alone, which were in turn all significantly greater than placebo
    - Secondary objectives also met; the combination of RPL554 with salbutamol or ipratropium bromide caused a significant reduction ($p=0.0002$ and $p=0.004$ respectively) in trapped air in the lung (residual volume) as compared to salbutamol or ipratropium bromide alone, suggesting that RPL554 treatment may reduce dyspnea, a major debilitating symptom of COPD[1]
    - Consistent with previous studies, RPL554 was well tolerated both alone and in combination
        - No effect on vital signs or ECG parameters
        - No gastro-intestinal adverse events recorded

- Reported positive results from dose finding study with RPL554 in asthmatic patients

    - Primary objective of study met; nebulised RPL554 demonstrated a dose-dependent bronchodilator response in asthma patients; the response was highly statistically significant ($p<0.0001$) at all doses tested
    - The maximum bronchodilator effect of RPL554 in this study was comparable to the effect observed with the supramaximal dose (7.5mg) of nebulised salbutamol used in the study
    - Large dose range (0.4 to 24mg) examined; suggests RPL554 potentially has a large safety margin
    - RPL554 did not elicit any serious adverse events or adverse events of concern at any dose
        - Fewer adverse events recorded with RPL554 than with nebulised salbutamol
        - No gastro-intestinal adverse events or cardiovascular events of concern

- Data from first Phase 1 study with RPL554 supporting the Company's view that RPL554 could become an important, novel and complementary inhaled medicine for the treatment of respiratory diseases such as COPD, asthma and cystic fibrosis presented at American Thoracic Society (ATS) 2016 International Conference in USA:
    - Studies continue to demonstrate the excellent bronchodilator properties of RPL554
    - Formulation is much better tolerated than the earlier solution formulation prototype, with no maximum tolerated dose observed even at 16 times the active bronchodilator dose
    - New formulation is suitable for twice daily dosing
    - Formulation provides for a longer pulmonary residence time, lower peak plasma exposure and longer half-life in blood than the earlier formulation suggesting a more pronounced effect locally in the lung and comparatively less effects in other organs in the body

[1] Dyspnea (shortness of breath) in COPD patients is often associated with hyperinflation of the lungs resulting from a higher residual volume of air

JOINT STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Loss after tax for the period of £1.60 million (2015: £3.69 million) or 0.16 pence (2015: 0.37 pence) per ordinary share, reflecting a tight control over costs.

- Net cash outflows from operating activities during the six month period of £2.23 million (2015: £3.92 million), with cash and cash equivalents as at 30 June 2016 of £1.21million (2015: £6.09 million) with spending focused on RPL554 clinical trials and related activities.

POST PERIOD AND OTHER EVENTS

- Fundraising completed in July 2016 to raise gross proceeds of £44.7 million (approximately US$63.3 million at the exchange rate of 17 June 2016) by way of a placing to issue 1,555,796,345 placing shares at a price of 2.873 pence per share (each placing share includes one warrant to subscribe for 0.4 of a placing share)
    - The net proceeds of the Placing of £41.9 million will predominantly be used to progress RPL554 through a Phase 2b clinical trial in COPD patients, and to fund additional clinical Phase 2 studies in COPD and cystic fibrosis as well as further supportive pre-clinical work
    - The cornerstone investors in the Placing are specialist healthcare focused funds Vivo Capital, OrbiMed and Edmond de Rothschild Investment Partners
    - Other new investors include New Enterprise Associates, Novo A/S, Abingworth and Aisling Capital with participation of existing investors including Arix Bioscience, Hargreave Hale and Polar Capital
- On 29 July 2016, three additional Non-Executive Directors joined the Verona Pharma Board as representatives of certain of the investors in the Placing: Mahendra Shah (Vivo Capital), Rishi Gupta (Orbimed) and Andrew Sinclair (Abingworth)
- On 12 September 2016, Vikas Sinha joined the Verona Pharma Board as an independent Non-Executive Director
- Clinical data from Phase 2a “add on” study with RPL554 presented at the European Respiratory Society (ERS) 2016 International Conference in London

JOINT STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER FOR THE SIX MONTHS ENDED 30 JUNE 2016

INTRODUCTION

Verona Pharma is a UK-based clinical stage biotech company focused on the development of innovative prescription medicines to treat respiratory diseases with significant unmet medical needs such as chronic obstructive pulmonary disease (COPD) and cystic fibrosis. The Company's lead product, RPL554, is a first-in-class, inhaled dual phosphodiesterase PDE3/PDE4 inhibitor that is ready to start Phase 2b as a nebulised formulation for treatment of patients with COPD. The drug has already demonstrated clinically relevant bronchodilator and anti-inflammatory effects which are essential to the improvement of symptoms in patients with COPD.

The Board believes that broadening the development strategy for RPL554, to include new indications and combination products, together with strengthening the IP coverage around the programme, has the potential to add significant value to the Company. To enable this larger development program and to broaden the investor base, to include healthcare focused funds based in the US as well as in the UK and Europe, the Company raised gross proceeds of £44.7 million via a placing post period (the Placing). The cornerstone investors in the Placing were the specialist healthcare focused funds Vivo Capital, OrbiMed and Edmond de Rothschild Investment Partners, with other new investors including New Enterprise Associates, Novo A/S, Abingworth and Aisling Capital and participation of the existing investors Arix Bioscience, Hargreave Hale and Polar Capital.

The net proceeds of the Placing of approximately £41.9 million will be used predominantly to progress the Company's lead product, RPL554, through a Phase 2b clinical trial in COPD patients, to fund additional clinical Phase 2 studies in COPD and cystic fibrosis, and to fund further supportive pre-clinical work, including the development of a dry powder inhaler (DPI) or metered dose inhaler (MDI). The Board believes that this funding provides a strong platform to accelerate the development of RPL554 for subsequent commercial use in multi-billion dollar markets and creates greater strategic flexibility to maximise future value for Shareholders. The Board further believes that the Company's strong balance sheet increases both Verona Pharma's flexibility in negotiating attractive commercial collaborations and its ability to expand patent protection for the emerging franchise.

Industry Background

The Company is initially developing RPL554 as a treatment for patients with COPD. These patients are commonly treated with bronchodilators to dilate the airways and thereby ease breathing and reduce breathlessness, a major symptom in these patients, and with glucocorticosteroids to reduce the chronic inflammation of the airways. For more severe patients that are not well controlled, an oral formulation of an anti-inflammatory PDE4 inhibitor is added. Despite the recently introduced novel maintenance treatments for COPD, many patients experience acute worsening with cough, sputum production and breathlessness, and become hospitalised. For many of these patients, a better and more effective maintenance treatment is required, that can control their symptoms and reduce the risk of exacerbations. For those patients that end up in hospital, older, short-acting nebulized bronchodilators are still used on hospital wards and there is clearly a need for effective treatments in this acute hospital setting. We believe RPL554 can become an attractive add-on therapy to provide extra clinical benefit in patients with acute exacerbations of COPD. There is little innovation in the form of novel classes of bronchodilator or anti-inflammatory drugs for these acutely ill patients, or for the maintenance treatment of COPD patients, and the Board therefore believes that these are very attractive commercial opportunities for Verona Pharma.

An increasing awareness of the problem of COPD patients returning for hospital treatment within 30 days of discharge has triggered a strong interest from industry, regulators and healthcare administrators and payers in optimising treatment of acute COPD exacerbations and beyond, when patients are discharged from hospital. This provides an opportunity for RPL554 that we intend to explore in further Phase 2 clinical studies.

Almost 10% of COPD patients, most likely the more severely ill patients, prefer treatment with a nebulizer instead of using an MDI or DPI. Normal breathing through a mouthpiece or facemask is convenient and comforting when the patient is anxious about receiving the treatment. A nebulizer is both convenient and effective in delivering a large and effective dose. About 9% of COPD patients in the US prefer treatment with a nebulizer over a hand-held device MDI/DPI, while up to 30% of these patients use a nebulizer more intermittently. We are initially developing RPL554 as a nebulized treatment for more severe patients, at home or after they have been admitted to hospital. Importantly, the development and regulatory paths of a nebulized treatment is different from that of an MDI or DPI. Based on initial experiments, we have demonstrated that RPL554 can be used in a range of both jet and mesh nebulizers.

Positive data with RPL554 in Phase 2a clinical studies in 2015

As a nebulized treatment, RPL554 successfully completed a number of early clinical Phase 1 and Phase 2 studies. These single and multiple dose studies demonstrate that RPL554, when inhaled across a range of doses, is an effective bronchodilator in patients with COPD and asthma. RPL554 has a rapid onset of action and the magnitude of the bronchodilator effect seems to be at least as profound as that of other commonly used bronchodilator drugs.[2]

RPL554 has also been demonstrated to have a potent anti-inflammatory effect in a clinical trial. This property is unique to RPL554 and is not shown by other bronchodilator drugs of the beta2 agonists or anti-muscarinic classes. RPL554 showed a broad inhibitory effect on inflammatory cells in the airways, including a significant reduction in the number of neutrophils, a cell type thought to be involved in COPD (and cystic fibrosis). This effect sets RPL554 apart from steroids as this class of drugs seem to have little effect on neutrophils and increasingly the use of inhaled steroids in COPD patients is being questioned as they seem to have limited beneficial effects. Therefore, RPL554 as a combined bronchodilator and anti-inflammatory agent offers unique benefits to COPD patients, both as a novel type of bronchodilator, and as an anti-inflammatory compound offering additional benefits over and above those of steroids.

As the original proof of concept formulation could not be commercialized, a novel nebulized proprietary suspension formulation of RPL554 was developed which is stable, scalable and suitable for commercial use. The first Phase 1/2a study with the new nebulized formulation was a Single Ascending Dose (SAD) and Multiple Ascending Dose (MAD, 5 days, twice daily dosing) study in 80 healthy subjects and a 5 day MAD study in 32 COPD patients completed in 2015. The new formulation was well tolerated as 16 times the previously used bronchodilator dose (with the old formulation) could be administered without reaching a maximum tolerated dose. Pharmacokinetic analysis revealed a significantly longer pulmonary residence time, a substantially lower peak plasma concentration and a longer plasma half-life than the previously used formulation, suggesting longer exposure of the target organ (lung) to RPL554, less systemic activity and that twice daily dosing most likely could be achieved. The study also demonstrated the excellent bronchodilator properties of RPL554 indicating that it is able to produce large improvements in lung function in healthy subjects as well as patients with mild, moderate or severe lung disease.

Successful Phase 2a and add-on study for RPL554 in interim period

A single-dose, 7-way cross over Phase 2a dose-finding study with the new formulation was conducted in 29 asthma patients in 2016. The study was performed in asthma patients because typically a dose response relationship to bronchodilators can be more accurately established in this group of patients with highly reversible airways obstruction compared to patients with COPD. A wide range of RPL554 doses were

[2] Pre-clinical studies in isolated airway muscle have demonstrated that RPL554 is an effective bronchodilator also in highly constricted airways, to some extent mimicking bronchospasm in patients with respiratory disease, where other bronchodilators of the currently used beta2-agonist and anti-muscarinic types are less effective. If a similar effect is seen in patients with highly obstructed airway muscles, RPL554 has the potential to be advantageous compared to other types of bronchodilators.

compared to two different doses of salbutamol, a standard bronchodilator used in both asthma and COPD patients, and placebo. The primary objective of the study was met as nebulised RPL554 demonstrated a highly statistically significant and dose-dependent bronchodilator response in asthma patients. The maximum bronchodilator effect of RPL554 in this study was comparable to the effect observed with the supramaximal dose of nebulised salbutamol used in the study. RPL554 did not elicit any serious adverse events or adverse events of concern at any dose, suggesting that RPL554 potentially has a very large safety margin. There were also fewer adverse events recorded with RPL554 than with nebulised salbutamol and no gastro-intestinal adverse events or cardiovascular events of concern.

In a second Phase 2a study in COPD patients, RPL554 produced a highly significant ($P \leq 0.001$) and a clinically meaningful additional (>60%) bronchodilation when administered on top of standard of care bronchodilators, salbutamol or ipratropium bromide. The bronchodilator effects seen with the combinations were significantly ($P \leq 0.001$) larger than those of either salbutamol or ipratropium bromide alone, which were in turn all significantly greater than placebo. In addition, the combination of RPL554 with salbutamol or ipratropium bromide caused a significant reduction ($p=0.0002$ and $p=0.004$ respectively) of trapped air in the lung (residual volume) as compared to salbutamol or ipratropium bromide alone suggesting that RPL554 treatment may reduce dyspnea, a major debilitating symptom of COPD. Consistent with previous studies, RPL554 was well tolerated both alone and in combination. No effect on vital signs or ECG parameters or gastro-intestinal adverse events were recorded.

We have investigated RPL554 as a combination product with an anti-muscarinic drug, such as glycopyrrolate, a class of drugs that is widely used in treating COPD patients. We have been strongly encouraged by data showing a synergistic effect of RPL554 in combination with anti-muscarinic drugs in isolated human airway smooth muscle. Such a combination product could have significant advantages over the many dual long-acting agonists/long acting-muscarinic antagonists (LABA/LAMA) bronchodilator inhalers available to COPD patients and could be used both in acute hospital care and in long-term maintenance treatment.

In addition to treatment of acute exacerbations, RPL554 clearly has potential as a chronic maintenance therapy in patients with COPD. Both the bronchodilator and the anti-inflammatory properties would be beneficial to these out-patients and it is a larger market opportunity. The new nebulized formulation could be developed into an attractive maintenance treatment for those moderate to severe COPD patients that prefer to use a nebulizer. There is an even larger market for COPD patients that are routinely treated with a DPI or pressurized metered dose inhaler (pMDI) and we have previously demonstrated that RPL554 can be formulated for use in both a DPI and a pMDI.

RPL554 shows promise as a treatment of cystic fibrosis

Additional pre-clinical data continue to demonstrate the potential usefulness of RPL554 as a treatment of cystic fibrosis. RPL554 is an activator of the cystic fibrosis transmembrane conductance regulator (CFTR) that is dysfunctional in cells of cystic fibrosis patients (because of different types of gene mutations). A direct effect on the CFTR, an anti-inflammatory effect on many of the key inflammatory cells in the lungs of cystic fibrosis patients and a direct bronchodilator effect may collectively improve mucociliary clearance (reduce phlegm in the airways), reduce symptoms of chronic inflammation and ease breathing. This adds a further dimension to the potential utility of the drug. Further studies exploring the potential of RPL554 in cystic fibrosis are being planned.

FINANCIALS

The loss from operations after tax for the six month period ended 30 June 2016 (the "Period") was £1.60 million (2015: £3.69 million) or 0.16 pence (2015: 0.37 pence) per ordinary share. The reported loss includes a non-cash share-based payment charge of £0.18 million (2015: £0.26 million) and a research and development tax credit receivable of £0.28 million (2015: £0.74 million).

Research and development expenditure, which was expensed as incurred, amounted to £1.24 million (2015: £3.48 million). Development programme expenditures during the period amounted to £1.24 million for RPL554 (2015: £3.37 million), and the 2015 results include £0.11 million for VRP700 as a result of the discontinuance of the VRP700 programme.

Expenditures in RPL554 reduced by £2.13 million as a result of the clinical trials ceasing as the Company came to the end of Phase 2a.

Administrative expenses for the period were £0.66 million (2015: £0.99 million). The reduction of £0.33 million over the prior period was due to a decrease in share-based payment charge and other administrative items.

As at 30 June 2016, the Group had approximately £1.21 million (2015: £6.09 million) in cash and cash equivalents.

FURTHER DEVELOPMENT & COMMERCIALISATION STRATEGY

The Company has made significant progress since the fundraising in March 2014 which enabled us to advance the new commercial formulation of RPL554 through clinical studies up to the start of Phase 2b, which is expected in the second half of 2016. Additional pre-clinical and manufacturing work will be performed to satisfy certain regulatory guidelines. In parallel, we are continuing to strengthen the IP coverage to provide comprehensive patent protection for RPL554 in its various forms, with the intention of expanding the use of RPL554 in new indications and in combination products.

Our focus on developing the nebulized formulation of RPL554 for hospital use is motivated in part by the increasing concern and intent to tackle the high rates of 30-day hospital re-admissions for COPD. This has recently gained impetus following the implementation by the U.S. Government in the fourth quarter of 2014 of a new policy which penalizes hospitals with high 30-day re-admission rates for select conditions, including COPD. Interestingly, such a policy has already been introduced by the NHS in the UK. In our clinical studies in hospitalised patients, we will explore the possibility that treatment with RPL554 will reduce such re-admission rates and so demonstrate a clear health-economic benefit of treatment with the drug.

The Board believes that products combining RPL554 with other classes of bronchodilators are potentially highly attractive for the respiratory market and expand the RPL554 product franchise. Indeed, while there has been significant interest in the novel dual bronchodilator products containing a LABA and a LAMA recently introduced as chronic treatments for COPD, a combination between RPL554 and, for example, the LAMA glycopyrrolate, would contain two different bronchodilator components, with the added benefit that RPL554 would also provide an anti-inflammatory component to create in essence a triple-combination product.

We further plan to expand the use of RPL554 beyond COPD, and explore the possible use of RPL554 in the treatment of other respiratory conditions. Pre-clinical work demonstrating a potentiating activity on CFTR suggests that cystic fibrosis could be a potential novel indication. We will further explore this opportunity in pre-clinical and exploratory clinical trials. In addition, we plan to explore the possible use of nebulized RPL554 to treat acute asthma attacks in the A&E unit. When used as an addition to standard treatment, it is expected that RPL554 would rapidly improve lung function, reduce symptoms and reduce the number of hospital admissions from the A&E unit. Again, this treatment would generate a clear health-economics benefit.

The Company recognises that an experienced and resourceful commercial collaborator could bring significant value to the development of RPL554 for chronic maintenance treatment in COPD and perhaps asthma and therefore continues to be involved in business development discussions around the RPL554 programme. However, the Company intends to collaborate in respect of its drug candidates only when it can extract a commercially attractive return for the Company and its Shareholders.

JOINT STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER FOR THE SIX MONTHS ENDED 30 JUNE 2016

BOARD CHANGES

Post period, we were pleased to announce the appointment of Mahendra Shah, Rishi Gupta, Andrew Sinclair and Vikas Sinha, as Non-Executive Directors to the Board. The new Board members are highly experienced directors and entrepreneurs with invaluable expertise in the field of drug development, commercialization, corporate development and financial management. We very much look forward to working with them as we continue our focused clinical development of the lead pipeline asset RPL554.

OUTLOOK

We continue to develop the Company by exploring opportunities to expand RPL554 across multiple disease areas and in combination with other products to enhance our pipeline, and by recruiting additional expertise (particularly in the development and commercialisation of respiratory products) across both our management team and Board of Directors. The Company operates with a strong focus and financial discipline, and with a well-financed Balance Sheet coupled with our additional expertise we remain very positive about progress to date in our lead drug development programme, RPL554, and the opportunities for its further development and commercialisation.

Dr. David Ebsworth
Chairman

12 September 2016

Dr. Jan-Anders Karlsson
Chief Executive Officer

12 September 2016

VERONA PHARMA PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	6 months ended 30 June 2016 (unaudited) £	6 months ended 30 June 2015 (unaudited) £	Year ended 31 December 2015 (audited) £
Research and development		(1,244,715)	(3,477,322)	(7,268,847)
Administration expenses		(661,114)	(987,792)	(1,705,944)
Operating loss		(1,905,829)	(4,465,114)	(8,974,791)
Finance income		7,375	27,169	44,791
Loss before taxation		(1,898,454)	(4,437,945)	(8,930,000)
Taxation – credit	2	284,977	743,762	1,509,448
Loss for the period attributable to owners of the parent		(1,613,477)	(3,694,183)	(7,420,552)
Other comprehensive gains				
Exchange differences on translating foreign operations		15,866	5,593	3,784
Total Comprehensive loss for the period attributable to owners of the parent		(1,597,611)	(3,688,590)	(7,416,768)
Loss per ordinary share – basic and diluted (pence)	3	(0.16)p	(0.37)p	(0.73)p

VERONA PHARMA PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	As at 30 June 2016 (unaudited) £	As at 30 June 2015 (unaudited) £	As at 31 December 2015 (audited) £
ASSETS			
Non-current assets			
Property, plant and equipment	9,962	17,343	13,162
Intangible assets	403,232	286,186	344,645
Goodwill	1,469,112	1,469,112	1,469,112
	1,882,306	1,772,641	1,826,919
Current assets			
Prepayments and other receivables	518,522	494,780	513,300
Current tax receivable	1,824,788	1,385,414	1,534,788
Cash and cash equivalents	1,205,724	6,093,913	3,524,387
	3,549,034	7,974,107	5,572,475
Total assets	5,431,340	9,746,748	7,399,394
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	1,009,923	1,009,923	1,009,923
Share premium account	26,650,098	26,650,098	26,650,098
Share-based payments reserve	1,113,694	912,016	1,022,440
Retained losses	(24,606,707)	(19,396,536)	(23,095,806)
Total equity	4,167,008	9,175,501	5,586,655
Current liabilities			
Trade and other payables	1,264,332	571,247	1,812,739
	1,264,332	571,247	1,812,739
Total liabilities			
Total equity and liabilities	5,431,340	9,746,748	7,399,394

VERONA PHARMA PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	6 months ended 30 June 2016 (unaudited) £	6 months ended 30 June 2015 (unaudited) £	Year ended 31 December 2015 (audited) £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss	(1,905,829)	(4,465,114)	(8,974,791)
Exchange differences on translating foreign operations	15,866	5,593	3,784
Share based payment expense	177,962	259,611	398,943
Decrease/(increase) in prepayments and other receivables	(5,221)	76,153	57,633
(Decrease)/increase in trade and other payables	(539,372)	46,934	1,274,370
Depreciation of plant and equipment	5,095	4,951	9,854
Write-off of intangible assets	-	134,533	134,533
Amortisation of intangible assets	26,092	21,688	43,262
Net cash outflow from operating activities	(2,225,407)	(3,915,651)	(7,052,412)
Net cash outflow from operating activities	(2,225,407)	(3,915,651)	(7,052,412)
Cash (outflow)/inflow from taxation	(14,057)	69,150	699,519
Cash flow from investing activities			
Finance income	7,375	32,969	50,591
Purchase of property, plant and equipment	(1,838)	(616)	(1,830)
Payment for patents	(84,736)	(61,698)	(141,240)
Net cash outflow from investing activities	(79,199)	(29,345)	(92,479)
Net decrease in cash and cash equivalents	(2,318,663)	(3,875,846)	(6,445,372)
Cash and cash equivalents at the beginning of the period	3,524,387	9,969,759	9,969,759
Cash and cash equivalents at the end of the period	1,205,724	6,093,913	3,524,387

VERONA PHARMA PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Share capital £	Share premium £	Share-based payment reserve £	Retained losses £	Total £
Balance at 1 January 2016	1,009,923	26,650,098	1,022,440	(23,095,806)	5,586,655
Loss for the period				(1,613,477)	(1,613,477)
Other comprehensive income for the period:					
Exchange differences on translating foreign operations				15,866	15,866
Total comprehensive income for the period				(1,597,611)	(1,597,611)
Share-based payments	-	-	177,962	-	177,962
Transfer of previously expensed share-based payment charge upon lapse of options	-	-	(86,708)	86,708	-
Balance at 30 June 2016 (unaudited)	1,009,923	26,650,098	1,113,694	(24,606,709)	4,167,006
Balance at 1 January 2015	1,009,923	26,650,098	677,946	(15,733,487)	12,604,480
Loss for the period				(3,694,183)	(3,694,183)
Other comprehensive income for the period:					
Exchange differences on translating foreign operations				5,593	5,593
Total comprehensive income for the period				(3,688,590)	(3,688,590)
Share-based payments	-	-	259,611	-	259,611
Transfer of previously expensed share-based payment charge upon lapse of options	-	-	(25,541)	25,541	-
Balance at 30 June 2015 (unaudited)	1,009,923	26,650,098	912,016	(19,396,536)	9,175,501
Balance at 1 January 2015	1,009,923	26,650,098	677,946	(15,733,487)	12,604,480
Loss for the year				(7,420,552)	(7,420,552)
Other comprehensive income for the year:					
Exchange differences on translating foreign operations				3,784	3,784
Total comprehensive income for the year				(7,416,768)	(7,416,768)
Share-based payments	-	-	398,943	-	398,943
Transfer of previously expensed share-based payment charge upon lapse of options	-	-	(54,449)	54,449	-
Balance at 31 December 2015 (audited)	1,009,923	26,650,098	1,022,440	(23,095,806)	5,586,655

1. Publication of non-statutory accounts

i) This interim financial information for the six months ended 30 June 2016 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 12 September 2016. The figures for the year ended 31 December 2015 have been extracted from the audited statutory accounts which have been reported on by the Company's auditor. The financial statements for the year ended 31 December 2015 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 2016 includes the results of Verona Pharma plc and its wholly-owned subsidiaries, Verona Pharma Inc. and 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 2015 and expected to be adopted in the financial year ending 31 December 2016.

In the opinion of the Directors, the interim financial information for the period presents fairly the financial position and the results from operations and cash flows for the period.

No new IFRS standards, amendments or interpretations became effective in the six months to the 30 June 2016 which had a material effect on this interim financial information.

iii) During the period two restatements have been made to the primary statements as follows:

- Exchange differences arising on translating foreign operations have been reclassified from research and development to other comprehensive gains due to an error in the prior period amounting to £5,593 (30th June 2015) and £3,784 (31st December 2015).

- Computer software has been reclassified from property, plant and equipment to intangible assets amounting to £603 (30 June 2016), £169 (30 June 2015) and £660 (31 December 2015).

The impact of both these restatements is immaterial to the financial statements.

iv) The directors do not recommend the payment of a dividend (period to 30 June 2015 - £Nil; year ended 31 December 2015 - £Nil).

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

2. Taxation

The current period tax credit, £0.28 million, represents the estimated research and development tax credit receivable on qualifying expenditure incurred during the six month period ended 30 June 2016. (period to 30 June 2015: £0.74 million; year ended 31 December 2015: £1.51 million).

3. Loss per share

i) The basic loss per share of 0.16p (30 June 2015: loss of 0.37p; 31 December 2015: loss of 0.73p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 1,009,923,481 (30 June 2015: 1,009,923,481; 31 December 2015: 1,009,923,481).

ii) Since the Group has reported a net loss, diluted loss per ordinary share is equal to basic loss per ordinary share.

4. Comparatives

The comparatives include audited figures for the year ended 31 December 2015 and unaudited figures for the six months ended 30 June 2015.