21 February 2017

Vernalis plc

Unaudited Interim Results for the six months ended 31 December 2016

Tuzistra® XR prescriptions growing steadily as 2016/2017 US cough cold season progresses
Two further NDAs from cough cold franchise accepted for review by FDA with potential approvals later this year

Vernalis plc (LSE: VER) today announces its unaudited consolidated results for the six month period ended 31 December 2016.

US Commercial performance:

- Tuzistra® XR prescriptions increased almost six-fold to 11,586 for the six month period (2015: 1,976), reflecting:
  - increased insurance coverage and pharmacy stocking
  - improved sales-force effectiveness following expansion to 100 representatives and refinement to both marketing messaging and physician targeting
  - improved patient affordability following enhancements in our patient assistance program
- Validation of the potential of Tuzistra® XR seen across the US, with high performing sales representatives in all regions
- Focus for the second half of 2016/17 is to further improve sales-force effectiveness and increase the number of high performing representatives
- Reported revenues for Tuzistra® XR were £0.8 million (2015: £0.6 million)
  - Underlying patient prescription demand has increased significantly and now accounts for ~64 per cent of sales volumes (2015 ~15 per cent)
  - The remaining ~36 per cent (2015 ~85 per cent) reflects expanded pharmacy stocking (~29 per cent vs 2015 ~45 per cent) and expanded wholesaler inventories (~seven per cent vs 2015 ~40 per cent)
  - Pharmacy stocking has continued to expand since the end of the half year
  - Inventory levels with wholesalers are now approaching more normalised levels

Financial Highlights for the six months ended 31 December 2016

- Revenue was £5.6 million (2015: £6.1 million)
  - US Commercial net revenues (including Tuzistra® XR and Moxatag®) were £0.9 million (2015: £0.6 million) and represents deliveries made to wholesalers
  - Research collaboration income was £3.2 million (2015: £3.8 million) due to lower FTE income in the period
  - Frovatriptan royalty income was down seven per cent at £1.5 million (2015: £1.6 million); as the expected market entry of generics resulted in a price reduction that was partially offset by a foreign exchange gain on translation
- Operating costs before exceptional items were £21.7 million (2015: £19.0 million) with the increase due to the further expansion of the US Commercial sales team
- Loss for the period was £11.0 million (2015: £10.2 million loss before exceptional items)
- Balance sheet remains strong with £74.2 million of cash resources and no debt at 31 December 2016
- Cash resources including cash and cash equivalents and held to maturity assets reduced by £9.8 million in the six months to 31 December 2016 and included:
  - Cash used in operations of £12.8 million (2015: £10.7 million)
  - $3.0 million (£2.3 million) milestone payment to Tris was made for the acceptance of CCP-07 NDA by FDA for review.
  - £4.4 million unrealised foreign exchange gain (2015: £2.7 million)

US Commercial Pipeline:

- CCP-07 NDA filed and accepted for review by FDA with a PDUFA date of 20 April 2017
- CCP-08 NDA filed and accepted for review by FDA with a PDUFA date of 4 August 2017
- Two further programmes in active development at Tris, with proof-of-concept ("POC") targeted by the end of 2017

Other Operational Highlights:

- **Frovatriptan (marketed):** Underlying Menarini sales for the six months to 31 December 2016 down 31 per cent at €8.7 million (2015: €12.7 million) due to patent expiry and market entry of generics, as previously highlighted

- **NCE Development Pipeline:** The Company announced in February 2017 that Corvus Pharmaceuticals Inc had reached the predefined criteria for expansion of the cohort of patients with renal cell carcinoma treated with single-agent CPI-444 in the ongoing Phase 1/1b study. The expansion of this study triggered a $3 million milestone payment to Vernalis under the licensing deal with Corvus. Promising evidence of single-agent activity has also been seen in patients in other disease-specific cohorts, including lung cancer and melanoma
- **Research Collaborations:** Five active collaborations at 31 December 2016

Expected Newsflow (all dates calendar years):

- CCP-07: potential FDA approval (Q2 2017)
- CCP-08: potential FDA approval (Q3 2017)
- POCs on two remaining programmes in cough cold pipeline (CCP-05 and CCP-06) (by end of 2017)
- End of 2016/17 season Tuzistra® XR trading update (June/July)
- Receive payments for achieving milestones under existing collaborations
- Secure new research collaborations
- Continue to leverage our US commercial infrastructure with possible complementary new product acquisitions/in-licensing

Ian Garland, Chief Executive Officer, commented,

"We are encouraged with the progress we have made in the last six months as we continued to expand our sales and saw further progress in our cough cold development pipeline.

"Midway through the 2016/17 cough cold season we have seen Tuzistra® XR prescriptions continue to grow steadily. We believe the emergence of high performing sales representatives in all regions across the US validates the market potential for Tuzistra® XR. We are, however, still in the early stages of the launch and our focus for the second half of the season is to drive sales-force effectiveness and so further increase the proportion of high performing sales territories. With continued prescription growth expected, the annualised run-rate at the end of June 2017 should provide a more meaningful predictor of sales performance for future years.

"We expect to achieve a number of milestones from the remainder of the cough cold franchise in 2017, including potential approvals by FDA of CCP-07 and CCP-08. We also continue to seek other opportunities to leverage our US commercial infrastructure and remain very excited about the growth potential of the business."

Presentation & Conference Call

Vernalis management will host a presentation at **9.30am** (UK) today at the offices of FTI Consulting 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. It will also be available via webcast at http://www.vernalis.com/investor-centre/presentations-and-webcasts and www.cantos.com and via conference call, which can be joined by dialling: **+44 (0) 20 3003 2666**, Passcode **5780976#** Please contact Jack Bower at FTI consulting +44 (0) 20 3727 1000 for details.

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Notes to Editors

About Vernalis
Vernalis is a revenue generating, commercial stage pharmaceutical company with significant expertise in drug development. The Group has three approved products: Tuzistra® XR targeting the US prescription cough cold market; Moxatag®, a daily formulation of the antibiotic, amoxicillin, indicated for the treatment of tonsillitis and/or pharyngitis secondary to Streptococcus pyogenes in adult and paediatric patients 12 years of age or older; and frovatriptan for the

acute treatment of migraine. It has an exclusive licensing agreement to develop and commercialise multiple novel products focussed on the US prescription cough cold market as well as eight programmes in its NCE development pipeline. Vernalis has also significant expertise in fragment and structure based drug discovery which it leverages to enter into collaborations with larger pharmaceutical companies. The Company's technologies, capabilities and products have been endorsed over the last five years by collaborations with leading pharmaceutical companies, including AKP, Biogen Idec, Endo, GSK, Genentech, Lundbeck, Menarini, Novartis, Servier, Taisho and Tris.

For further information about Vernalis, please visit www.vernalis.com.

Vernalis Forward-Looking Statement
This news release may contain forward-looking statements that reflect the Company's current expectations regarding future events including the clinical development and regulatory clearance of the Company's products, the Company's ability to find partners for the development and commercialisation of its NCE pipeline, the Company's ability to successfully commercialise its cough cold products and Moxatag® through its own sales -force as well as the Company's future capital raising activities. Forward-looking statements involve risks and uncertainties. Actual events could differ materially from those projected herein and depend on a number of factors including the success of the Company's research strategies, the applicability of the discoveries made therein, the successful and timely completion of clinical studies, the uncertainties related to the regulatory process, the ability of the Company to identify and agree beneficial terms with suitable partners for the commercialisation and/or development of its products, as well as the achievement of expected synergies from such transactions, the acceptance of Tuzistra® XR, Moxatag®, frovatriptan and other products by consumers and medical professionals, the successful integration of completed mergers and acquisitions and achievement of expected synergies from such transactions, and the ability of the Company to identify and consummate suitable strategic and business combination transactions.

Strategic and Operational Review

We have continued to make steady progress in our US commercial business during the six months to 31 December 2016 with increasing Tuzistra® XR prescriptions and the filing of two further NDAs with the FDA. Our research business has continued to perform in line with our expectations but down on prior periods due to a reduction in FTE income. In our partnered NCE pipeline, both Corvus and Verona have announced positive progress with their respective programmes.

Last year, in its launch year, Tuzistra® XR's progress was slower than we hoped. Although we began to build awareness with physicians, we experienced high levels of lost prescriptions due to patient abandonments and insurance rejections. The key underlying causes of this slower progress were a notable gap in coverage at one major national insurer, limited pharmacy stocking, higher out-of-pocket costs for uninsured cash paying patients, very low initial levels of brand awareness amongst prescribers and a new and only partially effective sales-force.

Our refined commercial plan for the current cough cold season seeks to address those headwinds faced in our launch year and accelerate Tuzistra® XR sales performance. These refinements include an expanded sales-force, increased by 25 per cent to 100 territories, hiring our regional sales directors in-house and changes to head-office sales and marketing personnel. In addition, we overhauled our marketing plan, refining our core messaging and our target prescribers. We have increased the co-pay assistance available to uninsured cash patients, continued to target coverage at key insurance plans and aim to increase pharmacy stocking by targeted discounting with key regional and national pharmacy chains.

Although still early in the roll-out of this refined plan, we have made good progress in the six months to 31 December 2016. We have already increased unrestricted insurance coverage to 75 per cent of commercial lives after securing coverage with one of the largest US insurers. We significantly increased pharmacy stocking to ~7,000 stores at 31 December 2016, including securing distribution to a leading US national chain, within our sales regions. Pharmacy stocking has grown further, since the end of the half year to ~ 9,000 stores. Our improved co-pay assistance programme has successfully reduced the out-of-pocket cost for uninsured patients and, together with that improved insurance coverage and pharmacy stocking, we are seeing much lower abandonment and rejection rates, albeit at a marginally lower net $ per prescription being retained, due to the cost of these initiatives.

We have learned through primary and secondary research that our refreshed core messaging is impactful and will lead to prescribing. Physicians report that they believe in the core benefits of Tuzistra® XR and perhaps most importantly that their patients are having a positive experience after having taken the product.

The sales-force has performed more strongly in the six months to 31 December 2016, achieving 11,586 prescriptions, almost six-times the 1,976 achieved in the same period of 2015. Even more significantly, we are starting to see validation of the full potential of Tuzistra® XR with high performing sales representatives across all of our regions. In the last full week before the end of the half year, the 21 top performing representatives were generating prescriptions at an annualised run-rate in excess of 600 per year each, (equating to a national run-rate of more than 112,000 prescriptions per year) with the highest representative at an annual run-rate in excess of 3,000 per year. A key goal for us in the second half year is to achieve or exceed these run-rates for a significant proportion of our sales-force rather than just in the top ~20 per cent of sales representatives. We found that the key to success for top performers is that their execution is superior to the rest. As sales-force execution is fully in our control, we will be deploying the best practices learned from the top performers across the entire sales-force, which we expect will lead to acceleration in performance. Following a small decline in prescriptions during the early weeks of January, prescriptions have continued to grow week-on-week, with the current weekly number reaching 1,182 as of 17 February 2017.

The narcotic prescription cough cold market, in which Tuzistra® XR competes, remains significant with approximately 5.7 million prescriptions written in the six months to 31 December 2016. However, this was down approximately 10 per cent on the equivalent period in 2015 when approximately 6.2 million prescriptions were written. The prescription cough cold market has always fluctuated with the severity of the season and data from the US CDC on influenza like illness (an indicator of cough

cold activity) indicates that the 2016/17 market is trending marginally above the levels seen last year.

The disparity between the CDC data, which shows a modest increase, and the narcotic prescription data, which shows a modest decline, could be explained by a lower level of prescribing of cough cold treatments or a greater proportion of the prescriptions being written for non-narcotic treatments. We have seen a gradual decline over recent years in the proportion of cough cold prescriptions written for narcotic treatments and the CDC data indicates this may be continuing. The labelling for all narcotic prescription drugs, including those used for cough cold, has been further updated since the beginning of the new year to highlight the risks of use in combination with benzodiazepines. It is too early to determine what impact this will have on the level of prescribing but we anticipate a continuing trend towards lower use of narcotics. Our cough cold strategy recognized this potential shift in prescribing towards non-narcotics and we have a non-narcotic cough cold treatment in development under our collaboration with Tris Pharma.

In our cough cold pipeline, we have continued to make excellent progress and filed both the CCP-07 and CCP-08 NDAs with FDA during the six months to 31 December 2016. The more advanced programme, CCP-07, has a PDUFA target action date of 20 April 2017 and CCP-08 has a PDUFA target action date of 4 August 2017. If approved, we plan to launch both programmes into the 2017/18 cough cold season. Tris continues to work on both CCP-05 and CCP-06 and we hope to achieve proof of concept for these programmes by the end of 2017.

As reported last year, following the liquidation of Suir Pharma, our sole supplier of Moxatag®, we have to identify a new supplier and qualify it with FDA to provide us with ongoing commercial supplies. Since our last update, the Suir Pharma site in Ireland has been acquired by IQ Pharmatek and we are in discussions with the new owners to evaluate them as that replacement supplier. There is no update at this point to previous timelines provided, which was to have resupply established by September 2018 at the latest.

On the NCE pipeline, Verona announced positive data from a Phase IIa dose-finding clinical study for RPL554 in March 2016 using their new proprietary nebulised formulation and in May 2016, announced positive results from an "add-on" Phase II trial, where RPL554 produced over 60 per cent additional bronchodilation on top of standard of care bronchodilators in COPD patients. In order to finance the current and future studies of RPL554 in COPD and Cystic Fibrosis, Verona announced a US public offering in November 2016, targeting to raise up to $130 million in the first half of 2017. Vernalis will receive a share of sub-licensing income, a milestone payment on approval of RPL554 and royalties on commercialisation.

In January 2017, our licensee of CPI-444, Corvus Pharmaceuticals Inc announced that the protocol criteria for expansion had been reached for the cohort of patients with renal cell carcinoma treated with single-agent CPI-444 in their ongoing Phase 1/1b study. The size of that cohort will be increased from 14 to 26 patients. The expansion of this study triggered a $3 million milestone payment to Vernalis under the licensing deal with Corvus. Promising evidence of single-agent activity has also been seen in patients in other disease-specific cohorts, including lung cancer and melanoma.

The Phase 1/1b study is evaluating CPI-444, a selective and potent inhibitor of the adenosine A_{2A} receptor, as a single-agent and in combination with Genentech's Tecentriq® (atezolizumab). The study has shown early signs of single-agent activity in heavily pre-treated renal cell cancer patients, some of whom were refractory to prior therapy. If these findings are confirmed with longer follow up and a larger set of patients, Corvus could potentially initiate a registration trial before the end of 2017. That study would evaluate CPI-444 in late-stage renal cancer patients, for whom current treatment options are very limited.

During the six month period, Vernalis successfully continued its collaborative strategy with six active drug discovery programmes with collaborators. Each research collaboration is tailored to the needs of the individual research programme and has different financial terms. These usually include funding for scientists, success milestone payments and royalties on sales. The team continues to seek new opportunities for further collaborations.

Financial Review

Total revenue of £5.6 million
Revenue for the six months ended 31 December 2016 was £5.6 million (2015: £6.1 million), a decrease of nine per cent compared to 2015. £0.9 million was recorded for US Commercial revenues (2015: £0.6 million), £1.5 million related to the supply of frovatriptan (2015: £1.6 million) and £3.2 million (2015: £3.9 million) to the research collaborations, and other collaboration income.

US Commercial Revenues
Net revenue reflects the gross turnover of product shipped to the wholesaler, reduced for estimates of: rebates, discounts, allowances and provision for product returns, given or expected to be given which vary by product arrangements and buying groups. These estimates have been made based on actual in-market data received pre- and post- the end of the six month accounting period and have been applied to the wholesaler and pharmacy pipeline. We will continue to refine these estimates and methodologies over time as the breadth of in-market data increases.

Tuzistra® XR
Revenues from Tuzistra® XR were £0.8 million for the six months (2015: £0.6 million). Prescriptions grew to 11,586 (2015: 1,976 scripts) for the six month period, with acceleration in growth towards the end of the period. Patient prescriptions accounted for ~64 per cent of sales volume for the period (2015: only ~15 per cent) with the remaining 36 per cent due to expanded pharmacy stocking (approximately 29 per cent compared to 45 per cent in 2015) and expanded wholesaler inventories (approximately seven per cent compared to 40 per cent in 2015). The sales volumes in H1 2015 were impacted by the initial launch stock supplied into wholesalers and pharmacies. Inventory levels at the wholesalers are now approaching more normalised levels but pharmacy stocking levels have continued to grow since the end of the half year due to expansion in distribution and increased underlying demand.

Moxatag®
Revenues from Moxatag were £0.1 million which represents the initial launch quantities sold into the wholesale channel. The product was relaunched into the US market in early October 2016 and is being promoted in a limited number of our sales

regions until ongoing supply has been re-established.

Frovatriptan sales
Sales of frovatriptan by Menarini in Europe and Central America were down 31 per cent in euro terms at €8.7 million for the six months to 31 December 2016, compared to 2015 (€12.7 million). Volumes of tablet sales for the six months to 31 December 2016 were down 15 per cent at 4.162 million compared to 2015 (4.899 million), with the decrease in sales value principally due to price reductions and loss of market share following generic entrants in December 2015. Vernalis receives 25.25 per cent of Menarini sales via a royalty linked to the supply of API, so the reported royalties do not necessarily track the underlying performance of frovatriptan in the market.

The reported frovatriptan royalties for the six months to 31 December 2016 of £1.5 million were slightly down on 2015 (£1.6 million) and this £0.1 million decrease was due to an 18 per cent price reduction offset by an 11 per cent foreign exchange movement in the Euro. The volume of API shipped in both periods was one shipment of 12.5kg.

The composition of matter patent on frovatriptan expired in December 2015 but Vernalis will continue to receive a royalty through to 2019, but on lower underlying forecast frovatriptan sales. Menarini have ordered two further 12.5kg shipments of API for the second half of the financial year through to 30 June 2017 but generic competition may impact both price and volume in the future.

Research and Development revenue
Research collaboration income was £3.2 million for the six month period to 31 December 2016 (2015: £3.9 million). The reduction in revenue was driven by both lower FTE income and an absence of research milestones during the period (2015: £0.2 million milestone revenue).

Research and Development costs
Research and development expenditure was flat at £5.5 million for the six month period to 31 December 2016 (2015: £5.6 million) with the vast majority of these costs in both periods arising from internal research and development. The research and development costs for the six month period, annualised, are a reasonable guide for the anticipated annual ongoing costs.

Sales and Marketing costs
Sales and marketing costs were £13.3 million for the six month period to 31 December 2016 (2015: £10.8 million). The increase in cost is due to an expansion of the sales-force in order to increase the reach into target prescribers as well as having sales-force costs for the entire six month period. 2015 included four months of sales-force costs following its recruitment in August. The sales and marketing costs for the six month period, annualised, are a reasonable guide for the anticipated annual costs this year.

General and Administrative cost control
General and administrative expenditure before exceptional items was £2.9 million for the six months to 31 December 2016 (2015: £2.6 million), an increase of £0.3 million for the six month period. Adjusting both periods for the share option charge and associated national insurance accrual on the exercise of share options, underlying general and administrative costs increased by £0.1 million or five per cent and reflects additional corporate costs in setting up and running the US commercial business. The general and administrative costs before exceptional items for the six month period, annualised, continue to be a reasonable guide for the anticipated annual ongoing costs.

The exceptional gain in the six months to 31 December 2015 of £2.6 million related to the successful settlement of an onerous lease obligation.

Operating loss increased due to the expansion of the US sales-force

The operating loss before exceptional items increased to £16.9 million for the six months to 31 December 2016 (2015: £13.5 million), reflecting the increase in operating costs explained above. The operating loss for the six months to 31 December 2015 from continuing operations after the exceptional gain was £10.9 million.

Strengthening of the US dollar impacts finance income
Interest earned on cash resources for the six months to 31 December 2016 increased to £0.3 million (2015: £0.1 million) due to the higher average cash balances held during the period. With the majority of our cash held in US dollars in order to match our Tris and US commercial financing requirements, the yield on these deposits remained low. Finance income however continues to be significantly affected by the strengthening of the US dollar and, to a lesser degree, the recent strengthening of the euro, with a £4.4 million unrealised foreign exchange gain on the conversion of foreign currency denominated cash deposits into sterling at 31 December 2016 for financial reporting purposes (2015: £2.7 million unrealised gain). At 31 December 2016, the sterling:US dollar rate was 1.236, compared to a 30 June 2016 rate of 1.337.

Income Tax credit increased
The income tax credit of £1.1 million for the six months to 31 December 2016 was £0.6 million higher than for the same period in 2015 (£0.5 million). This represents a £1.0 million increase in the research and development tax credit, primarily due to the tax credits associated with the CCP-07 and CCP-08 filing milestones in the period, offset by a larger US tax charge reflecting the growing revenues in the US business.

Wider loss reported
The pre-exceptional loss for the six months to 31 December 2016 was £11.0 million (2015: £10.2 million). The widening of the loss is due to the additional investment in the US sales and marketing infrastructure, offset by a larger unrealised foreign exchange gain on the retranslation of our foreign currency balances into sterling for reporting purposes. The loss after exceptional items for the six months to 31 December 2015 was £7.6 million.

Balance sheet remains strong
Non-current assets increased to £23.7 million (30 June 2016: £19.9 million) primarily due to the capitalisation of both CCP-07 and CCP-08 NDA filing milestones.

Current assets decreased to £82.9 million (30 June 2016: £92.5 million) primarily due to the £9.8 million reduction in cash resources over the period.

Total liabilities increased to £14.2 million (30 June 2016: £9.8 million). This was primarily due to the CCP-08 NDA filing milestone of £2.4 million which was in creditors at 31 December 2016, and an increase to provisions associated with US commercial revenues.

Cash Resources
Cash resources comprising held-to-maturity financial assets and cash and cash equivalents at 31 December 2016, totalled £74.2 million (30 June 2016: £84.0 million). A significant proportion of these cash resources are denominated in non-sterling currencies with most of the cash denominated in US dollars.

We continue to manage cash tightly. The £9.8 million cash burn in the six months to 31 December 2016 included the US$3.0 million (£2.3 million) payment to Tris on the NDA acceptance of CCP-07 as well as a £4.4 million unrealised foreign exchange gain arising from the conversion of our US dollars and euros into sterling for reporting purposes.

Cash used in operations increased to £12.8 million (2015: £10.7 million) due to the increase in operating costs following the expansion of the US sales-force.

Outlook
Whilst we are only mid-way through this year's cough cold season in the US, we have seen Tuzistra® XR prescriptions grow steadily compared to last season. The market for prescription drugs in this segment has always fluctuated with the severity of the season and data from the US CDC on influenza like illness (an indicator of cough cold activity) indicates that the 2016/17 market is trending marginally above the levels seen last year. With continued prescription growth expected in the second half of 2016/17 driven by further improvements in the effectiveness of the sales-force, annualised run-rates at the end of June should provide a more meaningful predictor of sales performance for future years.

We also look forward to achieving a number of milestones for the remainder of the cough cold franchise in 2017, including potential approvals by FDA of CCP-07 and CCP-08 and we also continue to seek other opportunities to leverage our US commercial infrastructure.

Principal Risks and Uncertainties

Vernalis considers strategic, operational and financial risks and identifies actions to mitigate these risks. The principal risks and uncertainties for the remaining six months of the financial period ending 30 June 2017 can be found in the Annual Report for the year ended 30 June 2016, available on the website www.vernalis.com. There are no changes to these principal risks and no additional risks are anticipated for the remaining six months of the year.

Vernalis is a revenue generating, commercial stage pharmaceutical company with significant expertise in drug development. The Group has three approved products: Tuzistra® XR targeting the US prescription cough cold market; Moxatag®, a once daily formulation of amoxicillin, indicated for the treatment of tonsillitis and/or pharyngitis secondary to Streptococcus pyogenes, and frovatriptan for the acute treatment of migraine. Across the pharmaceutical industry as a whole, competition is intense in the selling of approved products and more product candidates fail in clinical studies than produce successful marketed products. Success or failure with Vernalis' approved products and product candidates will have a significant impact on the Company's prospects including the ability to secure licensing agreements on existing products and to secure further finance in the future should this be required.

Independent review report to Vernalis plc

Report on the condensed consolidated financial information

Our conclusion
We have reviewed Vernalis plc's condensed consolidated financial information (the "interim financial statements") in the interim financial report of Vernalis plc for the six month period ended 31 December 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the AIM Rules for Companies.

What we have reviewed
The interim financial statements comprise:

- the Unaudited condensed consolidated balance sheet as at 31 December 2016;
- the Unaudited condensed consolidated income statement and Unaudited condensed consolidated statement of comprehensive income for the period then ended;
- the Unaudited condensed consolidated statement of changes in equity for the period then ended;
- the Unaudited condensed consolidated statement of cash flows for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the AIM Rules for Companies.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim financial report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements.

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the AIM Rules for Companies and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
20 February 2017

Unaudited condensed consolidated income statement
for the six months ended 31 December 2016

	Note	**Six months ended 31 December 2016 Total £000**	Six months ended 31 December 2015 Pre-exceptional items £000	Exceptional items (note 3) £000	Total £000
Revenue		**5,555**	6,120	-	6,120
Other income		**233**	225	-	225
Cost of sales		**(984)**	(907)	-	(907)
Sales and marketing expenditure		**(13,332)**	(10,778)	-	(10,778)
Research and development expenditure		**(5,478)**	(5,582)	-	(5,582)
General and administrative expenditure		**(2,873)**	(2,617)	2,630	13
Operating loss		**(16,879)**	(13,539)	2,630	(10,909)
Finance income	4	**4,757**	2,855	-	2,855
Finance expense	4	**(57)**	(20)	-	(20)
Loss before income tax		**(12,179)**	(10,704)	2,630	(8,074)
Income tax credit	5	**1,132**	456	-	456
Loss for the period		**(11,047)**	(10,248)	2,630	(7,618)
Loss per share - basic and diluted	6	**(2.1)p**	(2.3)p	0.6p	(1.7)p

The notes form part of the condensed financial information.

Unaudited condensed consolidated statement of comprehensive income
for the six months ended 31 December 2016

	Six months ended 31 December 2016 Total £000	Six months ended 31 December 2015 Pre-exceptional items £000	Exceptional Items (note 3) £000	Total £000
Loss for the period	**(11,047)**	(10,248)	2,630	(7,618)
Other comprehensive income:				
Items that may subsequently be reclassified to profit and loss:				
Exchange loss on translation of overseas subsidiaries	**(120)**	(22)	-	(22)
Total comprehensive expense for the period	**(11,167)**	(10,270)	2,630	(7,640)

The notes form part of the condensed financial information.

Unaudited condensed consolidated balance sheet
as at 31 December 2016

	Note	**31 December 2016 £000**	30 June 2016 £000
Assets			
Property, plant and equipment	7	**1,646**	1,673
Intangible assets	8	**21,934**	17,645
Trade and other receivables		**116**	631
Non-current assets		**23,696**	19,949
Inventories	9	**514**	233
Trade and other receivables		**6,668**	7,225
Tax receivable		**1,550**	1,065
Held-to-maturity financial assets	10	**61,696**	76,997
Cash and cash equivalents		**12,485**	7,021
Current assets		**82,913**	92,541

Total assets		**106,609**	112,490
Liabilities and shareholders' equity			
Liabilities			
Trade and other liabilities		**1,408**	1,422
Deferred income		**73**	85
Provisions for other liabilities and charges	11	**505**	504
Derivative financial instruments	12	**-**	37
Non-current liabilities		**1,986**	2,048
Trade and other liabilities		**8,379**	5,095
Deferred income		**657**	922
Tax payable		**291**	80
Provisions for other liabilities and charges	11	**2,700**	1,333
Derivative financial instruments	12	**162**	281
Current liabilities		**12,189**	7,711
Total liabilities		**14,175**	9,759
Equity attributable to owners of the parent			
Share capital	13	**5,264**	5,262
Share premium		**514,791**	514,791
Other reserves	14	**254,627**	253,932
Retained deficit		**(682,248)**	(671,254)
Total equity		**92,434**	102,731
Total liabilities and equity		**106,609**	112,490

The notes form part of the condensed financial information.

Unaudited condensed consolidated statement of changes in equity
for the six months ended 31 December 2016

	Share capital £000	Share premium £000	Other reserves £000	Retained deficit £000	Total £000
Balance at 1 July 2015	4,434	476,392	253,365	(657,085)	77,106
Loss for the period	-	-	-	(7,618)	(7,618)
Other comprehensive expense for the period	-	-	(22)	-	(22)
Total comprehensive expense for the period	-	-	(22)	(7,618)	(7,640)
Transactions with owners:					
Exercise of share options	17	297	(195)	203	322
Share-based payments charge	-	-	432	-	432
	17	297	237	203	754
Balance at 31 December 2015	4,451	476,689	253,580	(664,500)	70,220

Balance at 1 July 2016	**5,262**	**514,791**	**253,932**	**(671,254)**	**102,731**
Loss for the period	**-**	**-**	-	(11,047)	(11,047)
Other comprehensive expense for the period	**-**	**-**	(120)	-	(120)
Total comprehensive expense for the period	**-**	**-**	**(120)**	**(11,047)**	**(11,167)**
Transactions with owners:					
Exercise of share options	2	-	(53)	53	2
Share-based payments charge	-	-	868	-	868
	2	**-**	**815**	**53**	**870**
Balance at 31 December 2016	**5,264**	**514,791**	**254,627**	**(682,248)**	**92,434**

Unaudited condensed consolidated statement of cash flows
for the six months ended 31 December 2016

	Six months ended 31 December 2016 £000	Six months ended 31 December 2015 £000
Cash flows from operating activities		
Loss for the period	**(11,047)**	(7,618)
Taxation	**(1,132)**	(456)
Depreciation	**313**	291

Amortisation of intangible fixed assets	**452**	299
Share-based payments charge	**868**	643
Movement in derivative financial instruments	**(156)**	313
Finance income	**(4,757)**	(2,855)
Finance expense	**57**	20
Exchange loss/(gain)	**227**	(65)
	(15,175)	(9,428)
Changes in working capital		
Inventories	**(281)**	(108)
Receivables	**1,063**	469
Liabilities	**1,611**	(1,659)
Cash used in operations	**(12,782)**	(10,726)
Taxation received	**1,060**	2,912
Taxation paid	**(251)**	(127)
Net cash used in operating activities	**(11,973)**	(7,941)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(275)**	(162)
Purchase of intangible fixed assets	**(2,339)**	(11)
Movement in held-to-maturity financial assets*	**19,334**	1,549
Acquisition of business	**-**	(2,386)
Interest received on cash and cash equivalents	**14**	11
Interest received on held-to-maturity financial assets	**298**	68
Net cash generated from/(used in) investing activities	**17,032**	(931)
Cash flows from financing activities		
Issue of shares	**2**	314
Net cash generated from financing activities	**2**	314
Foreign exchange gain on cash and cash equivalents	**403**	1,000
Movements in cash and cash equivalents in the period	**5,464**	(7,558)
Cash and cash equivalents at the beginning of the period	**7,021**	18,832
Cash and cash equivalents at the end of the period	**12,485**	11,274
Held-to-maturity financial assets at the end of the period	**61,696**	42,722
Total cash, cash equivalents and held-to-maturity financial assets at the end of the period	**74,181**	53,996

*The Group movement in held-to-maturity financial assets includes a foreign exchange gain of £4.0 million for the six months ended 31 December 2016 (£1.8 million for the six month period ended 31 December 2015).

Notes to the interim condensed financial statements

1 Accounting policies and basis of preparation

Vernalis plc ('the Company') and its subsidiaries (together 'the Group') is a revenue generating, commercial stage pharmaceutical company with significant expertise in drug development.

The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is 100 Berkshire Place, Wharfedale Road, Winnersh, Berkshire, RG41 5RD and its primary listing is on AIM.

This condensed consolidated financial information has been reviewed but not audited and was approved for issue on 20 February 2017.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the 12 month period ended 30 June 2016 were approved by the Board of directors on 28 September 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. This condensed consolidated financial information for the six months ended 31 December 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union as if the company were listed on a market regulated under EU law. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2016, which have been prepared in accordance with IFRSs as adopted by the European Union.

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Accruals made in respect of incentive schemes are accrued throughout the incentive scheme period using management's best estimate of the expected outcome as at the date of the interim report.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were as stated within the consolidated financial statements for the 12 month period ended 30 June 2016. The key areas of judgement relate to revenue recognition associated with the US commercial business and fair value measurements in relation to business combinations related to estimation of deferred contingent consideration due, and the share option charge.

US commercial revenue is recognised when title and risk of loss passes to the customer, estimates are made for the relevant deductions and obligations due to reflect the complete economic transaction. The US commercial revenue recognised in the condensed consolidated income statement is disclosed net of these various sales related deductions. Net revenue reflects the gross turnover reduced for estimates of: rebates, discounts, allowances and provision for product returns, given or expected to be given which vary by product arrangements and buying groups based on actual in market data received pre- and post- the end of the accounting period applied to inventory held by wholesalers and pharmacies. Amounts are reviewed frequently but as estimates they may not fully reflect the final outcome.

Research and development revenues including non-refundable access fees, options fees and milestone payments receivable for participation by a third party in commercialisation of a compound are recognised when they become contractually binding provided there are no related commitments of the Group. Where these receipts are upfront payments to enter into contracts, they are recognised over the expected life of the contract. Where there are related commitments, revenue is recognised on a percentage-of-completion basis in line with the actual levels of expenditure incurred in fulfilling these commitments. All other licence income and collaborative research fees are recognised over the accounting period to which the relevant services relate.

Royalty income is recognised in relation to sales to which the royalty relates. Royalties are recognised as they are earned.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The accounting policies applied are consistent with those of the annual financial statements for the 12 month period ended 30 June 2016, as described in those annual financial statements.

There are no new IFRSs or IFRICs that are effective for the first time for this interim period that would be expected to have a material impact on this Group.

Going concern

At 31 December 2016, the Group had cash resources (being cash and cash equivalents and held-to-maturity financial assets) of £74.2 million.

After making enquiries and taking into account management's estimate of future revenues and expenditure, the directors have a reasonable expectation that the Group will have adequate financial resources to continue in operation for the foreseeable future, and accordingly the condensed financial statements have been prepared on a going concern basis.

2 Segmental information

For the six months ended 31 December 2016, the Group has two segments Commercial and Research and Development. For the six months ended 31 December 2015, the Group had only one segment being the research, development and commercialisation of pharmaceutical products. These were in line with the reporting to the Executive Committee, which comprises the executive directors and other senior management.

Performance of these segments is reviewed at a sales and operating profit level which does not include the full allocation of general administrative costs which are reported separately. The Commercial segment covers all areas relating to the commercial sale of pharmaceutical products, the manufacture, distribution and operating expenses directly related to that activity. The Research and Development business includes all activities related to the research and development of pharmaceutical products for a range of medical disorders and includes the income generated by collaboration, milestones or royalties as well as the costs directly associated with those activities. There is no segmentation of the balance sheet. Charges such as depreciation, impairment, amortisation and other non-cash expenses are expensed to the relevant segment.

	Six months ended 31 December 2016			Six months ended 31 December 2015		
	Commercial £000	**Research and development £000**	**Total £000**	Commercial £000	Research and development £000	Total £000
Revenue	**2,326**	**3,229**	**5,555**	2,178	3,942	6,120
Other income	**-**	**233**	**233**	-	225	225
Cost of sales	**(976)**	**(8)**	**(984)**	(907)	-	(907)
Depreciation and amortisation	**(485)**	**(212)**	**(697)**	(313)	(180)	(493)
Share-based payments charge	**(259)**	**(183)**	**(442)**	(45)	(116)	(161)
Other operating expenses	**(12,588)**	**(5,083)**	**(17,671)**	(10,420)	(5,286)	(15,706)
Segmented loss	**(11,982)**	**(2,024)**	**(14,006)**	(9,507)	(1,415)	(10,922)
Corporate and unallocated cost			**(2,873)**			13
Operating loss			**(16,879)**			(10,909)
Net finance income			**4,700**			2,835
Loss before tax			**(12,179)**			(8,074)

3 Exceptional items

Exceptional items represent significant items of income and expense, which, due to their size, nature or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statement to give a better understanding to shareholders of the elements of financial performance in the period, so as to facilitate comparison with prior periods and to better assess trends in financial performance. Exceptional items include, but are not limited to, restructuring costs and provisions for vacant leases.

	Six months ended 31 December 2016 £000	Six months ended 31 December 2015 £000
Credit - release of provision for vacant leases	-	2,630

4 Finance income/expense

	Six months ended 31 December 2016 £000	Six months ended 31 December 2015 £000
Finance income		
Interest on cash, cash equivalents and held-to-maturity assets	**321**	108
Exchange gains on cash, cash equivalents and held-to-maturity assets	**4,436**	2,747
	4,757	2,855
Finance expense		
Unwinding of discount on provision (note 11)	**1**	20
Unwinding discount on deferred consideration (note 17)	**56**	-
	57	20

5 Income tax credit

Analysis of current tax credit:

	Six months ended 31 December 2016 £000	Six months ended 31 December 2015 £000
Research and development tax credits	**1,550**	538

Corporation tax on Research and Development Expenditure Credit	**(36)**	(44)
Overseas corporation tax	**(158)**	(48)
Adjustments in respect of prior year	**(224)**	10
	1,132	456

6 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion for all dilutive potential ordinary shares.

For diluted loss per share, all potential ordinary shares including options and deferred shares are antidilutive as they would decrease the loss per share.

	Six months ended 31 December 2016	Six months ended 31 December 2015
Attributable loss before exceptional items (£000)	**(11,047)**	(10,248)
Exceptional items (£000)	**-**	2,630
Attributable loss (£000)	**(11,047)**	(7,618)
Weighted average number of shares (basic and diluted) in issue (000)	**526,267**	444,213
Loss per ordinary share before exceptional items (basic)	**(2.1)p**	(2.3)p
Exceptional items	**0.0p**	0.6p
Loss per share (basic and diluted)	**(2.1)p**	(1.7)p

7 Property, plant and equipment

Additions of £0.3 million were made during the six months ended 31 December 2016 (£0.7 million in the six months ended 31 December 2015). In the six months to December 2015 this included plant and equipment acquired as part of the Moxatag® purchase.

Assets with a cost of £0.1 million and a net book value of nil were disposed of in the six months to 31 December 2016 (six months ended 31 December 2015: none). There were no capital commitments at 31 December 2016 (31 December 2015: £0.1 million).

8 Intangible assets

	Goodwill £000	Assets in use £000	Assets not yet in use £000	Total £000
Cost				
At 1 July 2016	8,954	52,166	3,909	65,029
Additions	-	25	4,716	4,741
At 31 December 2016	8,954	52,191	8,625	69,770
Accumulated amortisation and impairment				
At 1 July 2016	(8,954)	(38,130)	(300)	(47,384)
Amortisation charge in the period	-	(452)	-	(452)
At 31 December 2016	(8,954)	(38,582)	(300)	(47,836)
Net book value at 31 December 2016	**-**	**13,609**	**8,325**	**21,934**
Cost				
At 1 July 2015	8,954	37,570	13,042	59,566
Additions	-	4,033	-	4,033
Transferred to in use	-	9,188	(9,188)	-
At 31 December 2015	8,954	50,791	3,854	63,599
Accumulated amortisation and impairment				
At 1 July 2015	(8,954)	(37,417)	(300)	(46,671)
Amortisation in the period	-	(299)	-	(299)
At 31 December 2015	(8,954)	(37,716)	(300)	(46,970)
Net book value at 31 December 2015	**-**	**13,075**	**3,554**	**16,629**

Additions

Additions of £4.7 million were made during the six months ended 31 December 2016. These related to two milestone payments under the Tris agreement of $3.0 million each for the accepted filing with the FDA of the NDA application for CCP-07 and CCP-08. These are held in "assets not yet in use" pending the outcome of FDA reviews.

Additions of £4.0 million were made during the six months ended 31 December 2015, relating to the Moxatag® acquisition and a further £9.2 million was moved to "assets in use" following the approval and launch of Tuzistra® XR.

Impairments

During the six months to 31December 2016 and 31 December 2015 there were no impairments.

9 Inventories

	31 December 2016 £000	30 June 2016 £000
WIP	**227**	72
Finished goods	**765**	639
Less provision for obsolete inventories	**(478)**	(478)
Inventories	**514**	233

The cost of inventories recognised as an expense and included in the cost of sales for the six months to 31 December 2016 amounted to £204,000 (six months to 31 December 2015: £161,000).

There was no additional obsolescence charge for inventories becoming short dated or unsellable during the period to 31 December 2016 (six months to 31 December 2015: £0.2 million).

10 Held-to-maturity financial assets

Group held-to-maturity financial assets of £61,696,000 (30 June 2016: £76,997,000) represent fixed-rate, short-term deposits placed with a range of banks at fixed-terms of three months or greater, a floating-rate long-term bank deposit placed as collateral against the Group's foreign currency exchange contracts, a floating-rate 100-day notice deposit account and collateral given by Vernalis Therapeutics Inc in support of local credit facilities.

11 Provisions for other liabilities and charges

	Property £000	**Revenue £000**	**Total £000**
At 1 July 2016	504	1,333	1,837
Arising during the period	-	1,876	1,876
Utilised during the period	-	(619)	(619)
Unwinding of discount (note 4)	1	-	1
Exchange differences	-	110	110
At 31 December 2016	**505**	**2,700**	**3,205**

Property
At 31 December 2016, this provision related to dilapidation provisions which related to costs associated with the Group's obligation to reinstate leased buildings to their original state and had been discounted to fair value at the balance sheet date.

Revenue
When calculating US commercial revenues, provisions are made for rebates, discounts, allowances and product returns estimated, given or expected to be given which vary by product arrangements and buying groups. These provisions are calculated based on contractual obligations, available current/future market information and historic experience. Amounts are reviewed throughout the reporting period and reflect the best estimate at each reporting date. These provisions are expected to be settled within the ordinary operating cycles of the business.

12 Derivative financial instruments

	31 December 2016 £000	30 June 2016 £000
Financial liabilities carried at fair value through profit or loss		
Held for trading derivatives that are not designated in hedge accounting relationships		
Current - Foreign currency forward contracts	**(162)**	(281)
Non-current - Foreign currency forward contracts	**-**	(37)
	(162)	(318)

Further details of derivative financial instruments are provided in note 17. The fair values of all foreign currency forward contracts are based on period-end prices in an active market.

13 Share capital

	Number issued '000	Number authorised '000	Price	Issued £000	Authorised £000
Ordinary					
1 July 2016	526,196	Unlimited	£0.01	5,262	Unlimited
Issue of shares	156	-	£0.01	2	-
31 December 2016	**526,352**	**Unlimited**	**£0.01**	**5,264**	**Unlimited**

Ordinary					
1 July 2015	443,442	Unlimited	£0.01	4,434	Unlimited
Issue of shares	1,682	-	£0.01	17	-
31 December 2015	**445,124**	**Unlimited**	**£0.01**	**4,451**	**Unlimited**

Issue of shares six months to 31 December 2016
156,317 shares were issued following the exercise of options under the Long Term Incentive Plan scheme.

Issue of shares six months to 31 December 2015
1,681,958 shares were issued following the exercise of options under the Long Term Incentive Plan and Sharesave schemes.

14 Other reserves

	Merger reserve £000	Other reserve £000	Options reserve £000	Warrant reserve £000	Translation reserve £000	Capital redemption reserve £000	Total £000
At 1 July 2015	101,985	78,125	10,896	1,155	3,538	57,666	253,365
Share-based payments charge	-	-	432	-	-	-	432
Exercise of share option	-	-	(195)	-	-	-	(195)
Exchange loss on translation of overseas subsidiaries	-	-	-	-	(22)	-	(22)
At 31 December 2015	**101,985**	**78,125**	**11,133**	**1,155**	**3,516**	**57,666**	**253,580**

	Merger reserve £000	Other reserve £000	Options reserve £000	Warrant reserve £000	Translation reserve £000	Capital redemption reserve £000	Total £000
At 1 July 2016	101,985	78,125	11,563	1,155	3,438	57,666	253,932
Share-based payments charge	-	-	868	-	-	-	868
Exercise of share option	-	-	(53)	-	-	-	(53)
Exchange loss on translation of overseas subsidiaries	-	-	-	-	(120)	-	(120)
At 31 December 2016	**101,985**	**78,125**	**12,378**	**1,155**	**3,318**	**57,666**	**254,627**

15 Related party transactions

Key management compensation amounted to £1,274,000 for the six months ended 31 December 2016 (six months ended 31 December 2015: £1,077,000). Key management includes executive directors, non-executive directors and certain members of the Executive Committee.

At 31 December 2016, an amount of £4,484 (31 December 2015: £6,149) was due from Dr Fellner and companies where Dr Fellner is a board member, in respect of certain travel costs. Of the amount due at 31 December 2016, £1,226 had been repaid at 31 January 2017. The amount due at 31 December 2015 was repaid in full by 9 August 2016.

16 Seasonality

The Group's financial results have an accounting reference date of 30 June to reflect the increasing impact of the US commercial sales following the launch of Tuzistra®, XR, the Groups initial cough product, which is subject to the seasonality of the US cough cold market, with higher product demand during the Winter months.

17 Financial risk management

The main risks arising from the Group's financial instruments are foreign currency risk, cash flow and liquidity risk, interest rate risk, credit risk and fair value estimation.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements but are consistent with those disclosed. In the Group's annual financial statements as at 30 June 2016. There have been no changes to risk management policies since the end of the financial reporting period.

The Group holds the following financial instruments:

		31 December 2016				30 June 2016			
	Note	**Loans and receivables £000**	**Fair value though profit and loss £000**	**Financial liabilities at amortised cost £000**	**Total £000**	Loans and receivables £000	Fair value though profit and loss £000	Financial liabilities at amortised cost £000	Total £000
Assets									
Trade and other receivables*		**4,079**	**-**	**-**	**4,079**	4,874	-	-	4,874
Held-to-maturity financial assets	10	**61,696**	**-**	**-**	**61,696**	76,997	-	-	76,997
Cash and cash equivalents		**12,485**	**-**	**-**	**12,485**	7,021	-	-	7,021
Current assets		**78,260**	**-**	**-**	**78,260**	88,892	-	-	88,892
Total assets		**78,260**	**-**	**-**	**78,260**	88,892	-	-	88,892
Liabilities									
Trade and other liabilities		**-**	**1,148**	**260**	**1,408**	-	1,028	394	1,422
Provisions for other liabilities and charges	11	**-**	**-**	**505**	**505**	-	-	504	504
Derivative financial instruments	12	**-**	**-**	**-**	**-**	-	37	-	37
Non-current liabilities		**-**	**1,148**	**765**	**1,913**	-	1,065	898	1,963
Trade and other liabilities**		**-**	**20**	**8,098**	**8,118**	-	-	4,616	4,616
Provisions for other liabilities and charges	11	**-**	**-**	**2,700**	**2,700**	-	-	1,333	1,333
Derivative financial instruments	12	**-**	**162**	**-**	**162**	-	281	-	281
Current liabilities		**-**	**182**	**10,798**	**10,980**	-	281	5,949	6,230
Total liabilities		**-**	**1,330**	**11,563**	**12,893**	-	1,346	6,847	8,193

* Excluding amounts that relate to non-financial instruments of tax and prepayments.
** Excluding amounts that relate to non-financial instruments of taxation and social security.

The above assets and liabilities have all been stated at undiscounted values with the exception of deferred consideration. The undiscounted value of the deferred contingent consideration is £1,958,000 versus a discounted value of £1,168,000 as at 31 December 2016 (£1,812,000 undiscounted deferred consideration versus £1,028,000, as at 30 June 2016).

The assets and liabilities, which are measured at fair value through profit and loss, are as follows:

Level 2:
Derivative financial instruments measured at fair value are classified as level 2, where their value has been determined by reference to observable market data. Foreign currency forward contracts have been determined to be level 2 as their valuation has been derived from forward exchange rates observable at the balance sheet date together with the contractual forward rates and have been measured using the market approach.

Level 3:
Financial instruments are classified as level 3 when one or more of the key assumptions being modelled are not based on observable market data. Deferred contingent consideration has been assessed as level 3. The fair value of the deferred consideration arrangement of £1,168,000 (30 June 2016: £1,028,000) was estimated by applying an income approach. The fair value estimates are internally calculated at each reporting date based on the discount rate of 10 per cent and current best estimates of net revenues and cost of goods which are used to calculate future royalties and milestones. The key assessments and judgements included in the calculation of deferred consideration include:

- Market size and product
- Gross and net selling price
- Costs of manufacturing and product distribution
- Discount rates including a risk adjustment for ongoing supply

There have been no transfers between levels in the period and there were no changes to valuation techniques.

Fair value measurements using significant unobservable inputs (level 3)

	Deferred consideration £000
At 1 July 2016	1,028
Unwinding of discount (note 4)	56
Exchange differences	84
At 31 December 2016	**1,168**

Exchange differences are charged to sales and marketing expense.

18 Post balance sheet event

On 14 February 2017, the Group announced that Corvus Pharmaceuticals Inc had reached the predefined criteria for expansion of the cohort of patients with renal cell carcinoma treated with single-agent CPI-444 in the ongoing Phase 1/1b study. The expansion of this study triggered a $3 million milestone payment to Vernalis under the licensing deal with Corvus.

Statement of directors' responsibilities

The directors' confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report

The directors confirm that these condensed interim financial instruments give a true and fair view of the assets, liabilities, financial position and profit and loss of the issuer as a whole as required by DTR 4.2.4.

The directors of Vernalis plc are listed in the Vernalis plc Report and accounts for the 12 month period ended 30 June 2016. A list of current directors is maintained on the Vernalis plc website: www.vernalis.com.

The directors are responsible for the maintenance and the integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

David Mackney
Chief Financial Officer
20 February 2017