12 September 2017

LSE: VER

Vernalis plc

Results Announcement for the year ended 30 June 2017

Tuzistra® XR prescriptions growing steadily
In-house salesforce to promote both Tuzistra® XR and Moxatag® for the coming season
Independent market research continues to show significant market opportunity for cough cold franchise

Vernalis plc (LSE: VER) today announces its audited financial results for the year ended 30 June 2017, following the year-end trading update published on 18 July 2017.

US Commercial performance:

- Tuzistra® XR prescriptions increased three-fold to approximately 35,000 for the year (2016: 12,000), reflecting:
  - increased insurance coverage and pharmacy stocking
  - improved salesforce effectiveness following expansion to 100 representatives, now brought in-house
  - refined marketing messaging and physician targeting
  - improved patient affordability following enhancements in Vernalis' patient assistance program
- Potential of Tuzistra® XR remains significant and has been seen across the US, with high performing sales representatives in all targeted regions

Financial Highlights for the year ended 30 June 2017

- Reported revenue was £20.8 million (2016: £12.0 million), ahead of market expectations, as previously communicated in the July trading update
  - US Commercial net revenues (including Tuzistra® XR and Moxatag®) increased to £2.1 million (2016: £1.1 million), which represented deliveries made to wholesalers
    - Underlying patient prescriptions increased significantly and accounted for 70 per cent of sales volumes (2016: 42 per cent)
    - The remaining 30 per cent (2016: 58 per cent) reflected expanded pharmacy stocking (29 per cent vs 2016: 48 per cent) and some wholesaler stocking (1 per cent vs 2016: 10 per cent)
    - Inventory levels with wholesalers at year end remained at similar levels to 30 June 2016
  - Research collaboration income and milestones increased to £12.0 million in the period (2016: £8.0 million) including £5.0 million of milestones representing a record level of income for the research business
    - Other collaboration income received was £2.4 million (2016: £nil) and related to the clinical advancement of CPI-444 by Corvus Pharmaceuticals Inc ("Corvus")
  - Frovatriptan royalty income was £4.3 million (2016: £2.9 million). This 45 per cent increase was primarily due to volume, with three 12.5kg batches of API delivered to Menarini (2016: two 12.5kg batches of API)
    - Underlying Menarini sales were €16.7 million (2016: €20.8 million) representing a 20 per cent decrease due to continuing competition from generics following patent expiry in December 2015
- Operating costs before exceptional items were £45.2 million (2016: £36.6 million) with the increase due to the further expansion of the US sales and marketing activities
- Unrealised foreign exchange gain arising from the conversion of our US dollars and euros into sterling for reporting purposes was £2.2 million (2016: £8.0 million)

- Loss for the period was £21.6 million (2016: £17.1 million loss before exceptional items)
- Balance sheet remained strong with £61.3 million of cash resources and no debt at 30 June 2017
- Cash resources including cash and cash equivalents and held-to-maturity assets reduced by £22.7 million for the year and included:
  - Cash used in operations of £20.8 million (2016: £23.6 million)
  - $6.0 million (£4.7 million) milestone payments to Tris Pharma Inc ("Tris") for FDA acceptance to review CCP-07 and CCP-08 NDAs

US Commercial Pipeline:

- CCP-07 and CCP-08 NDAs filed and accepted for review by FDA

  Complete response letter (CRL) received in respect of each from FDA in April and August 2017 respectively
- Two further programmes in active development at Tris, with proof-of-concept ("POC") targeted by the end of 2017/18

Other Operational Highlights:

- **NCE Development Pipeline:** The Company announced in February 2017 that Corvus 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

Expected Newsflow:

- CCP-07 and CCP-08: address CRL outstanding items, resubmission and potential FDA approvals
- POCs on two remaining programmes in cough cold pipeline (CCP-05 and CCP-06) (by end of 2017/18 financial year)
- Commence full promotion of Moxatag® from September 2017 from existing inventory
- Re-establish manufacture of Moxatag® in 2018
- Receive milestones under existing collaborations
- Secure new research collaborations

Ian Garland, Chief Executive Officer, commented,

"We remain very encouraged with the progress we have made in the last 12 months as we continue to grow our sales and further progress our cough cold development pipeline, despite some challenges in the early stages of the commercial launch.

"Independent market research continues to show a significant market opportunity for our cough cold franchise and we remain excited by this prospect. Throughout the 2016/17 cough cold season we saw Tuzistra® XR prescriptions grow steadily and we expect similar levels of growth for the coming season as we focus on broadening the effectiveness of our salesforce through more focused physician targeting. Importantly, we will commence full promotion of Moxatag® across this salesforce, starting this month. We are also working closely with our partner Tris and the FDA to resubmit the NDAs for CCP-07 and CCP-08 as quickly as possible.

"We would like to thank our staff for their contribution during the year and our shareholders for their continued support. We look forward to continued progress in the coming year and strong growth in Tuzistra® XR prescriptions, as we build a major franchise in cough and cold."

Presentation & Conference Call

Vernalis management will host a presentation at **9.30am** (UK) 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**. Please contact Matthew

Moss at FTI consulting +44 (0) 20 3727 1000 for details.

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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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 once-a-day formulation of the antibiotic, amoxicillin, indicated for the treatment of tonsillitis and/or pharyngitis secondary to *Streptococcus pyogenes* in adults and pediatric patients 12 years and 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 ten years by collaborations with leading pharmaceutical companies, including Asahi Kasei Pharma, Biogen Idec, Endo, GSK, Genentech, Lundbeck, Menarini, Novartis, Servier, 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 salesforce, 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.

Operational Review

Our vision is to become a diversified, self-sustaining, specialty pharmaceutical company. Currently, we are focussed on strengthening the commercial proposition for our first launched product, Tuzistra® XR, and progressing the remainder of our cough cold pipeline.

Strengthened position of Tuzistra® XR in US market, prescriptions growing steadily
Tuzistra® XR has been available to patients in the US market for two cough cold seasons. During 2016/17 we markedly strengthened its position with payers, pharmacies, physicians and patients. As a result, we increased pharmacy stocking substantially during the period and estimate that approximately three quarters of target retail pharmacies in our geographical footprint have purchased Tuzistra® XR since launch. We also made further gains in securing unrestricted coverage with healthcare insurers, including another top insurer at the end of 2016, giving Tuzistra® XR more than 75 per cent coverage.

To increase physician uptake and to provide patients with immediate access to Tuzistra® XR at the time of their physician visit, we introduced two-dose patient samples early in the 2016/17 cough cold season. This, coupled with an enhanced patient assistance programme to reduce the out-of-pocket cost for both insured and cash-paying patients, has dramatically improved the access and affordability of Tuzistra® XR.

Last summer, we decided to expand our salesforce from 80 to 100 territories. The new sales representatives were recruited and trained in time for deployment to the field at the start of the season in October 2016. The combination of these initiatives allowed us to triple the level of Tuzistra® XR prescriptions to c. 35,000 in 2016/17 compared to c. 12,000 in the 2015/16 initial launch year, achieving a peak annualised run-rate of c. 55,000 prescriptions.

In May 2017, we took the decision to bring the outsourced inVentiv contract salesforce in-house. This was completed smoothly in early July and, for the coming season, all field-based sales staff are Vernalis employees. Building on the momentum established during 2016/17, we are targeting a similar level of prescription growth in the coming year and are guiding to between 105,000 and 115,000 prescriptions written with a closing annualised run-rate of approximately 155,000 to 175,000 prescriptions.

Working with Tris to resubmit to FDA NDAs for CCP-07 and CCP-08
The NDAs for both CCP-07 and CCP-08 were accepted for filing by FDA last year and given PDUFA dates of 20 April 2017 and 4 August 2017 respectively. Unfortunately, our development partner Tris received Complete Response Letters for both NDAs because of outstanding items that needed to be resolved before approval could occur. This was disappointing as plans had been made for the launch of both CCP-07 and CCP-08 into the 2017/18 season which would have leveraged our 100 person salesforce. The focus for both us and Tris is to address these items as quickly as possible to enable resubmission and subsequent approval of both NDAs, hopefully no later than for launch during the 2018/19 season. However, this is dependent upon the time Tris takes to resolve the outstanding items.

Full promotion of Moxatag® to commence from September
Very limited promotional support was given to Moxatag® last year because of the supply uncertainty. We have continued to progress a new source of supply during the year and intend to re-establish manufacture of Moxatag® in 2018. As a result and utilising existing inventories, we have begun full promotion of Moxatag® across the whole salesforce from the beginning of this month.

Record year for Research and Positive Developments in NCE pipeline
Revenues from frovatriptan have remained strong during the year, despite competition from generics since December 2015. Our Research business also had another good year with record levels of collaboration and milestone income. In March 2017, we entered into a new multi-year collaboration with our lead partner Servier, under which we received an upfront payment of €2 million. In April 2017, we also received a US$2 million milestone payment following the successful completion of one of our other collaborations. Although the Research business has performed strongly during the year and the level of income has been exceptional, with record revenues, income in future years is highly dependent on the Company continuing to secure new collaboration income and receive milestone payments.

There have been a number of positive developments from multiple existing partnerships in our NCE business. In February 2017, we received a $3 million clinical milestone payment from Corvus following the advancement of CPI-444 in early stage human oncology studies. In April 2017, we received two research milestones and one clinical milestone, totalling €2 million from our oncology drug discovery collaboration with Servier, who have advanced a compound targeting Mcl-1 into Phase I studies. Our RPL554 partner, Verona, has also made good progress listing on the US NASDAQ market, securing £70 million of further funding and initiating Phase IIb studies in COPD. We continue to actively seek partners for other in-house clinical stage programmes.

Financially, our operating loss of £26.4 million was better than expected because of higher revenue from our frovatriptan, NCE and research businesses and tight management of expenses across all parts of our business. We ended the year with a strong balance sheet, £61.3 million of cash resources and no debt, the cash balance having benefited from further weakening of sterling against the

US dollar, in which we hold the majority of our cash.

We would like to thank Board members and our staff for their contribution during the year and our shareholders for their continued support. We look forward to continued progress in the coming year and strong growth in Tuzistra® XR and Moxatag® prescriptions.

Financial Review

Total revenues of £20.8 million
Revenue for the year ended 30 June 2017 totalled £20.8 million (2016: £12.0 million), an increase of 73 per cent year-on-year. This comprised £2.1 million of US Commercial Revenues (2016: £1.1 million), £4.3 million related to the supply of frovatriptan (2016: £2.9 million) and £14.4 million (2016: £8.0 million) from research collaborations, and other collaboration income.

US Commercial Revenues
Tuzistra® XR and Moxatag® revenue is recognised when title and risk-of-loss passes to the customer and estimates are made for the relevant deductions and obligations so as to reflect the complete economic transaction.

Net revenue reflects the gross sales of product shipped to wholesalers, reduced by 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 based on actual in-market data received pre- and post- the end of the accounting period and have been applied to inventory held at wholesalers and pharmacies. 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 £2.0 million for the year to 30 June 2017 (2016: £1.1 million). Prescriptions grew three-fold in the year to c 35,000 (2016: c 12,000 prescriptions). The annualised prescription run rate for Tuzistra® XR has continued to grow steadily, reaching a peak of approximately 55,000 prescriptions, also approximately three- times the peak run rate at the same stage in June 2016. Revenue growth was driven by patient prescriptions (70%) and an expansion of pharmacy stocking of 29% with wholesaler levels remaining consistent.

Moxatag®
Revenues from Moxatag® were modest, £0.1 million which represented the initial launch quantities sold into the wholesale channel. Promotional effort was restricted to a limited number of regions over the last 12 months due to product supply constraints. We have made good progress in re-establishing supply and so Moxatag® will be promoted across the whole of the salesforce for the coming season.

Frovatriptan sales remain robust in the face of generic competition
Sales of frovatriptan by Menarini in Europe and Central America were down 20 per cent in euro terms at €16.7 million for the year to 30 June 2017 (2016: €20.8 million). The composition of matter patents expired in December 2015 and whilst there has been a reduction in both price and volume due to generic competition, sales have remained robust. Volumes of tablet sales for the year to 30 June 2017 were also down at 8.2 million (2016: 9.0 million). Vernalis receives 25.25 per cent of Menarini sales via a euro royalty linked to the supply of API, so the reported royalties do not necessarily track the underlying performance of Menarini in the market.

The reported frovatriptan royalties for the year to 30 June 2017 were £4.3 million (2016: £2.9 million) and this £1.4 million increase was mostly due to a volume increase with three 12.5kg batches of API delivered to Menarini during the year ended 30 June 2017 (2016: two 12.5kg batches of API). This increase in volume was offset by a 20 per cent price reduction during the year owing to continued competition from generic alternatives. The relative weakening of sterling against the euro also improved performance as this income stream is received in euros. Based on Menarini's projections, we expect to deliver two batches of API for the 2017/18 financial year.

Research had an exceptional year with record revenues
Research collaboration income was £12.0 million for the year to 30 June 2017 an exceptional result and an increase of £4.0 million (2016: £8.0 million). The increase was due to a significant number of milestones being achieved across several collaborations totalling £5.0 million for the year (2016: £0.6 million). We had seven active research collaborations during the year to 30 June 2017, which in addition to milestones, generated £7.0 million of FTE income (2016: £7.4 million). One of the collaborations completed during the year and so we enter the 2017/18 financial year with six active collaborations.

Development income from legacy out-licenced programmes
Development income totalled £2.4 million (2016: £nil) and related to a milestone earned from the out-licenced programme CPI-444. Corvus, our partner announced in February 2017 results from a successful Phase I study, and the expansion of that study triggered a US$3 million payment to Vernalis under the licensing deal with Corvus.

R&D costs were flat
Research and development expenditure were flat at £11.1 million for the year to 30 June 2017 (2016: £10.9 million before exceptional items) and comprised £10.5 million (2016: £10.5 million) of internally funded research and development costs and £0.6 million (2016: £0.4 million) of external costs associated with the development pipeline.

S&M infrastructure expanded in the US
Sales and marketing expenditure was £28.6 million (2016: £20.4 million). The increase in cost is due to an expansion of the salesforce in order to increase the reach into target prescribers as well as having salesforce costs for the entire year. The year to 30 June 2016 included ten months of salesforce costs following its recruitment in August 2015. A decision was made to bring in-house the sale force from early July 2017, but this will not increase the sales-force costs for the coming season.

G&A costs controlled
General and administrative expenditure was £5.5 million for the year to 30 June 2017 (2016: £5.3 million), an increase of £0.2 million for the year.

Exceptional gain
The exceptional gain in the year to 30 June 2016 of £2.7 million is a non-cash item and related to the successful settlement of an onerous lease obligation.

There are no exceptional items included in the income statement for the year ended 30 June 2017.

Operating loss before exceptional items consistent with prior year
The operating loss before exceptional items was flat at £26.4 million for the year to 30 June 2017 (2016: £26.2 million). The increase in income for the year almost completely offset the increased sales and marketing costs due to the salesforce expansion. The operating loss after exceptional items for the year to 30 June 2016 was £23.6 million.

Finance income benefited from continued strengthening of the US dollar
Interest earned on cash resources was £0.6 million (2016: £0.3 million) reflecting the higher average cash balance for the year. 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 was low but is improving following an interest rate increase in the US. Finance income has continued to benefit from the strength of the US dollar and euro, with a £2.2 million unrealised foreign exchange gain on the conversion of US dollar- and euro-denominated cash deposits into sterling at 30 June 2017 for financial reporting purposes. For the year to 30 June 2016 there was an unrealised foreign exchange gain of £8.0 million due to the strengthening of the US dollar over this period after the 23 June 2017 UK EU referendum vote. At 30 June 2017 the sterling:US dollar rate was 1.299, compared to the 30 June 2016 rate of 1.337.

Taxation income increase due to Tris pipeline advances and deferred taxation
Taxation income of £2.2 million (2016: £0.8 million) represents recoverable amounts under current legislation on R&D tax credits for small and medium-sized companies and deferred taxation, less US tax payable on the US commercial operations. The increase in income is primarily due to the R&D tax credits associated with the FDA filing acceptance milestone payments on CCP-07 and CCP-08 that were made in the year to 30 June 2017 as well as deferred taxation relating to temporary timing differences on the US commercial provisions and the utilisation of losses by a subsidiary entity.

Payments made to Tris that relate to development work performed on our behalf will qualify for R&D tax credits. The approval milestone payments which acquire the rights to the programmes from Tris, do not qualify.

Loss for the year increases due to foreign exchange
In addition to the underlying trading result as described above, the loss for the year to 30 June 2017 was £21.6 million (2016: £17.1 million pre-exceptional loss) with the increase predominantly due to a lower unrealised foreign exchange gain compared to the prior year.

Balance sheet remains strong
Non-current assets increased to £24.0 million (2016: £19.9 million) due to the capitalisation of development milestone payments made to Tris following the acceptance for review by FDA of CCP-07 and CCP-08.

Current assets decreased to £70.1 million (2016: £92.5 million) primarily due to the decrease in cash resources resulting from the ongoing investment in the US commercial operations.

Total liabilities increased to £11.4 million (2016: £9.8 million) due to an increase in creditors and provisions associated with the US commercial operations.

Cash resources of £61.3 million
Cash resources comprising held-to-maturity financial assets and cash and cash equivalents at 30 June 2017 totalled £61.3 million (30 June 2016: £84.0 million). A significant proportion of these cash resources continue to be denominated in non-sterling currencies with most of the cash denominated in US dollars.

We continue to manage cash tightly. The £22.7 million decrease in cash resources included £4.7 million ($6.0 million) in payments to Tris for development milestones associated with CCP-07 and CCP-08 and their filing acceptance by FDA, partially offset by a £2.2 million unrealised foreign exchange gain arising from the conversion of our US dollars and euros into sterling for reporting purposes. Cash used in operations decreased marginally to £20.8 million (2016: £23.6 million) due to the positive impact of working capital movements from US commercial sales.

Underlying net cash burn, which excludes milestone income received, milestone payments made and foreign exchange, increased to £27.7 million (2016: £21.8 million), reflecting the additional cost of the US commercial operations with the expansion of the salesforce to promote Tuzistra® XR.

Outlook

Independent market research continues to show a significant market opportunity for our cough cold franchise and we remain excited by this prospect. We continue to make progress in improving the effectiveness of our US commercial operations and are optimistic about the growth potential of our existing products and our ability to launch further products through this strategic asset in the future. With £61.3 million of cash resources (being cash and cash equivalents and held-to-maturity financial assets) on the balance sheet at 30 June 2017, the directors believe that the Company is sufficiently financed for the next 18 months but it is likely that the business will require additional finance in order to fully execute the commercial strategy for the full suite of products in the Company's cough cold pipeline. Any future financing considerations would reflect the pipeline progression with Tris, and thus, the timing of milestone payments payable, together with the speed of growth of Tuzistra® XR and Moxatag® sales.

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 year to 30 June 2017 can be found in the Annual Report, available on the website www.vernalis.com.

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' commercial strategy, which includes the development and approval of products as well as their successful promotion once approved, will have a significant impact on the Company's prospects including the ability to secure licensing agreements on existing products and/or to secure further finance.

Statement of directors' responsibilities

Each of the directors confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the strategic report in the Report and accounts for the year ended 30 June 2017 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Consolidated income statement

for the year ended 30 June 2017

Year ended 30 June 2017	Year ended 30 June 2016		
	Pre-exceptional items	Exceptional items (note 3)	Total
Total			

	Note	**£000**	£000	£000	£000
Revenue	2	**20,790**	12,034	-	12,034
Other income		**509**	396	-	396
Cost of sales		**(2,469)**	(2,004)	-	(2,004)
Sales and marketing expenditure		**(28,606)**	(20,428)	-	(20,428)
Research and development expenditure		**(11,084)**	(10,932)	-	(10,932)
General and administrative expenditure		**(5,550)**	(5,289)	2,651	(2,638)
Operating loss		**(26,410)**	(26,223)	2,651	(23,572)
Finance income	4	**2,776**	8,315	-	8,315
Finance expense	4	**(112)**	(42)	-	(42)
Loss before income tax		**(23,746)**	(17,950)	2,651	(15,299)
Income tax credit	5	**2,184**	804	-	804
Loss for the year		**(21,562)**	(17,146)	2,651	(14,495)
Loss per share (basic and diluted)	6	**(4.1)p**	(3.8)p	0.6p	(3.2)p

The notes form part of this condensed consolidated financial information.

All activities related to continuing operations.

Consolidated statement of comprehensive income

for the year ended 30 June 2017

	Year ended 30 June 2017	Year ended 30 June 2016		
	Total	Pre-exceptional items	Exceptional items (note 3)	Total
	£000	£000	£000	£000
Loss for the year	**(21,562)**	(17,146)	2,651	(14,495)
Other comprehensive income:				
Items that may subsequently be reclassified to profit and loss:				
Exchange gain/(loss) on translation of overseas subsidiaries	**70**	(100)	-	(100)
Total other comprehensive income /(expense)	**70**	(100)	-	(100)
Total comprehensive expense for the year	**(21,492)**	(17,246)	2,651	(14,595)

Balance sheet

as at 30 June 2017

	Note	**30 June 2017** **£000**	30 June 2016 £000

Assets			
Property, plant and equipment	7	**1,409**	1,673
Intangible assets	8	**21,626**	17,645
Deferred Taxation		**696**	-
Trade and other receivables		**304**	631
Non-current assets		**24,035**	19,949
Inventories	9	**933**	233
Trade and other receivables		**5,860**	7,225
Tax receivable		**2,082**	1,065
Held-to-maturity financial assets	10	**54,056**	76,997
Cash and cash equivalents		**7,202**	7,021
Current assets		**70,133**	92,541
Total assets		**94,168**	112,490
Liabilities and shareholders' equity			
Liabilities			
Trade and other liabilities		**1,271**	1,422
Deferred income		**52**	85
Provisions for other liabilities and charges	11	**394**	504
Derivative financial instruments	12	**-**	37
Non-current liabilities		**1,717**	2,048
Trade and other liabilities		**6,305**	5,095
Deferred income		**382**	922
Tax payable		**64**	80
Provisions for other liabilities and charges	11	**2,839**	1,333
Derivative financial instruments	12	**85**	281
Current liabilities		**9,675**	7,711
Total liabilities		**11,392**	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	**255,458**	253,932
Retained deficit		**(692,737)**	(671,254)
Total equity		**82,776**	102,731
Total liabilities and equity		**94,168**	112,490

Statements of changes in shareholders' equity

for the year ended 30 June 2017

	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 year	-	-	-	(14,495)	(14,495)
Other comprehensive expense for the year	-	-	(100)	-	(100)

Total comprehensive expense for the year	-	-	(100)	(14,495)	(14,595)
Transactions with owners:					
Issue of equity share capital	800	39,200	-	-	40,000
Costs on issue of equity share capital	-	(1,097)	-	-	(1,097)
Exercise of share options	28	296	(317)	326	333
Share-based payments charge	-	-	984	-	984
	828	38,399	667	326	40,220
Balance at 30 June 2016	5,262	514,791	253,932	(671,254)	102,731
Loss for the year	**-**	**-**	**-**	**(21,562)**	**(21,562)**
Other comprehensive income for the year	**-**	**-**	**70**	**-**	**70**
Total comprehensive income/(expense) for the year	**-**	**-**	**70**	**(21,562)**	**(21,492)**
Transactions with owners:					
Exercise of share options	**2**	**-**	**(79)**	**79**	**2**
Share-based payments charge	**-**	**-**	**1,535**	**-**	**1,535**
	2	**-**	**1,456**	**79**	**1,537**
Balance at 30 June 2017	**5,264**	**514,791**	**255,458**	**(692,737)**	**82,776**

Cash flow statement

for the year ended 30 June 2017

	Note	**Year ended 30 June 2017 £000**	Year ended 30 June 2016 £000
Cash flows from operating activities			
Loss for the year		**(21,562)**	(14,495)
Taxation	5	**(2,184)**	(804)
Depreciation		**626**	607
Loss on disposal of tangible fixed assets		**67**	144
Amortisation of intangible fixed assets	8	**911**	713
Movement in provisions	11	**1,402**	(1,636)
Movement in deferred income		**(573)**	(681)
Share-based payments charge		**1,535**	984
Movement in derivative financial instruments		**(233)**	619
Finance income	4	**(2,776)**	(8,315)
Finance expense	4	**112**	42
Exchange loss/(gain)		**153**	(203)
		(22,522)	(23,025)
Changes in working capital			
Inventories		**(700)**	(233)
Receivables		**1,691**	(1,109)
Liabilities		**727**	813
Cash used in operations		**(20,804)**	(23,554)
Taxation received		**1,060**	2,912

Taxation paid		**(601)**	(128)
Net cash (used in)/generated from operating activities		**(20,345)**	(20,770)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	**(428)**	(212)
Proceeds for sale of property, plant and equipment		**4**	-
Purchase of intangible fixed assets	8	**(4,779)**	(71)
Movement in held-to-maturity financial assets*		**24,906**	(27,329)
Acquisition of business		**-**	(3,677)
Interest received on cash and cash equivalents		**24**	26
Interest received on held-to-maturity financial assets		**594**	204
Net cash generated from/(used in) investing activities		**20,321**	(31,059)
Cash flows from financing activities			
Gross proceeds on issue of equity share capital		**2**	40,333
Costs on issue of equity share capital		**-**	(1,097)
Net cash generated from financing activities		**2**	39,236
Foreign exchange gain on cash and cash equivalents		**203**	782
Movements in cash and cash equivalents in the year		**181**	(11,811)
Cash and cash equivalents at the beginning of the year		**7,021**	18,832
Cash and cash equivalents at the end of the year		**7,202**	7,021
Held-to-maturity financial assets	10	**54,056**	76,997
Total cash, cash equivalents and held-to-maturity financial assets		**61,258**	84,018

* Movement in held-to-maturity financial assets includes a foreign exchange gain of £2.0 million for the year ended 30 June 2017 (£7.2 million gain for the year ended 30 June 2016).

Notes to the financial statements

1. Accounting policies and basis of preparation

This financial information for the years ended 30 June 2017 and 30 June 2016 does not comprise statutory financial statements. This financial information and announcement was approved for issue on 11 September 2017 and has been extracted from the 30 June 2017 audited statutory financial statements that were also approved by the board on the same date. These statutory financial statements have not yet been delivered to the registrar of Companies. Statutory financial statements for the year ended 30 June 2016 were approved by the Board of directors on 28 September 2016 and delivered to the Registrar of Companies. The auditors' report on the financial statements for the year ended 30 June 2017 and the year ended 30 June 2016 were (i) unqualified, (ii) did not included a reference to any matters to which the auditors drew attention by the way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Basis of preparation
These financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by financial assets and liabilities (including derivative financial instruments) at fair value through the profit or loss.

The accounting policies applied are consistent with those of the audited financial statements for the years ended 30 June 2017 and 30 June 2016, as described in those financial statements.

Copies of this announcement are available from the company secretary and the announcement is also on the Company's website at www.vernalis.com. The audited Report and accounts for the year ended 30 June 2017 and the accounts are available on the investor's section of the Company's website.

Going concern
With £61.3 million of cash resources (being cash and cash equivalents and held-to-maturity financial assets) on the balance sheet at 30 June 2017, the directors believe that the Company is sufficiently financed for the next 18 months but it is likely that the business will require additional finance in order to fully execute the commercial strategy for the full suite of products in the Company's cough cold pipeline. Any future financing considerations would reflect the pipeline progression with Tris, and thus, the timing of milestone payments payable, together with the speed of growth of Tuzistra® XR and Moxatag® sales.

2. Segmental information

For the year ended 30 June 2017, and the prior year, the Group has two segments, Commercial and Research & Development. In line with the reporting to the Executive Committee, which comprises the executive directors and other senior management, the 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 expense are expensed to the relevant segment.

The Group discloses the following other information, not all of which represents segmental information required by IFRS 8.

Revenue analysis
The revenue analysis in the table below is based on the country of registration of the fee-paying party:

	Year ended 30 June 2017	Year ended 30 June 2016
	£000	£000
United Kingdom	**-**	5
Rest of Europe	**14,237**	8,133
North America	**4,577**	1,162
Rest of the World	**1,976**	2,734

	20,790	12,034

	Year ended 30 June 2017	Year ended 30 June 2016
	£000	£000
Product sales*	**6,389**	3,994
Royalties	**-**	5
Collaborative	**14,401**	8,035
	20,790	12,034

*Includes frovatriptan royalty linked to the supply of API, received at 25.25 per cent of Menarini sales.

The analysis of segmental revenues and operating losses are as follows:

	Year ended 30 June 2017			Year ended 30 June 2016		
	Commercial	**Research and Development**	**Total**	Commercial	Research and Development	Total
	£000	**£000**	**£000**	£000	£000	£000
Revenue	**6,389**	**14,401**	**20,790**	3,994	8,040	12,034
Other income	**-**	**509**	**509**	-	396	396
Cost of sales	**(2,103)**	**(366)**	**(2,469)**	(2,004)	-	(2,004)
Depreciation and amortisation	**(69)**	**(431)**	**(500)**	(37)	(401)	(438)
Share-based payments charge	**(556)**	**(294)**	**(850)**	(189)	(238)	(427)
Other operating expenses	**(27,981)**	**(10,359)**	**(38,340)**	(20,202)	(10,293)	(30,495)
Segmented (loss)/profit	**(24,320)**	**3,460**	**(20,860)**	(18,438)	(2,496)	(20,934)
Corporate and unallocated cost*			**(5,550)**			(2,638)
Operating loss			**(26,410)**			(23,572)
Net finance income			**2,664**			8,273
Loss before income tax			**(23,746)**			(15,299)

*The corporate and unallocated cost for the year ended 30 June 2016 included the exceptional credit of £2,651,000 relating to the surrender of a lease in Cambridge.

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 the provision for vacant leases.

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Credit - release of provision for vacant leases	**-**	2,651

The exceptional credit of £2,651,000 for the year ended 30 June 2016 related to the surrender of a lease in Cambridge.

4. Finance income/expense

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Finance income		
Interest on cash, cash equivalents and held-to-maturity assets	**608**	291
Exchange gains on cash, cash equivalents and held-to-maturity assets	**2,168**	8,024
	2,776	8,315
Finance expense		
Unwinding of discount on accruals	**-**	5
Unwinding of discount on provision (note 11)	**1**	37
Unwinding of discount on deferred consideration (note 16)	**111**	-
	112	42

5. Income tax credit

Analysis of current tax credit in the year:

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000
Current tax:		
Research and development tax credits	**2,082**	1,065
Corporation tax on Research and Development Expenditure Credit (RDEC)	**(87)**	(79)
Overseas corporation tax	**(392)**	(161)
Adjustments in respect of prior years	**(115)**	(21)
Total current tax	**1,488**	804
Deferred tax		
Origination of temporary differences	**528**	-
Adjustments in respect of prior years	**168**	-
Total deferred tax	**696**	-

Total income tax credit	**2,184**	804

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 year.

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 anti-dilutive as they would decrease the loss per share.

	Year ended 30 June 2017	Year ended 30 June 2016
Attributable loss before exceptional items (£000)	**(21,562)**	(17,146)
Exceptional items (£000)	**-**	2,651
Attributable loss (£000)	**(21,562)**	(14,495)
Weighted average number of shares (basic and diluted) in issue (000)	**526,328**	455,258
Loss per ordinary share before exceptional items	**(4.1)p**	(3.8)p
Exceptional items	**-**	0.6p
Loss per share (basic and diluted)	**(4.1)p**	(3.2)p

7. Property, plant and equipment

Additions of £0.4 million were made during the year ended 30 June 2017 (2016: £0.8 million).

There were no capital commitments at 30 June 2017 (30 June 2016: £0.2 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	**-**	**62**	**4,717**	**4,779**
Reclassification of royalty credit	**-**	**113**	**-**	**113**
Transferred to in use	**-**	**80**	**(80)**	**-**
At 30 June 2017	**8,954**	**52,421**	**8,546**	**69,921**
Accumulated amortisation and impairment				
At 1 July 2016	**(8,954)**	**(38,130)**	**(300)**	**(47,384)**
Amortisation charge in the year	**-**	**(911)**	**-**	**(911)**
At 30 June 2017	**(8,954)**	**(39,041)**	**(300)**	**(48,295)**
Net book value at 30 June 2017	**-**	**13,380**	**8,246**	**21,626**

Cost				
At 1 July 2015	8,954	37,570	13,042	59,566
Additions - business combinations	-	4,022	-	4,022
Additions - other	-	16	55	71
Reclassification of royalty credit	-	1,370	-	1,370
Transferred to in use	-	9,188	(9,188)	-
At 30 June 2016	8,954	52,166	3,909	65,029
Accumulated amortisation and impairment				
At 1 July 2015	(8,954)	(37,417)	(300)	(46,671)
Amortisation charge in the year	-	(713)	-	(713)
At 30 June 2016	(8,954)	(38,130)	(300)	(47,384)
Net book value at 30 June 2016	-	14,036	3,609	17,645

Useful life and net book value of intangible assets

	30 June 2017	30 June 2016	**30 June 2017**	30 June 2016
Assets in use	**Useful Life**	Useful Life	**£000**	£000
Frova®	**to 2014**	to 2014	**-**	**-**
Finance software	**to 2022**	to 2022	**121**	145
Other software	**to 2024**	to 2024	**132**	-
License to Tris' extended-release technology	**to 2036**	to 2036	**3,108**	3,281
Tuzistra® XR	**to 2036**	to 2036	**6,572**	6,818
Moxatag®	**to 2027**	to 2027	**3,447**	3,792
Total assets in use			**13,380**	14,036

	30 June 2017	30 June 2016
	£000	£000
Assets not yet in use - cough cold development pipeline	**8,246**	3,609

In accordance with IAS 21 "The effects of changes in foreign exchange rates", goodwill and other intangible assets that are created in relation to the acquisition of a foreign subsidiary are maintained in the functional currency of that subsidiary.

Additions

Additions of £4.8 million were made in the year ended 30 June 2017. £4.7 million related to two milestone payments under the Tris development and licensing collaboration agreement of US$3 million each, for the accepted filings with FDA of the CCP-07 and CCP-08 NDAs. These are held in "assets not yet in use" pending the approval of these product by FDA.

In the year ended 30 June 2017, there was an additional reclassification of £0.1 million (2016: £1.4 million) from prepayments. This amount was part of the NDA acquisition payment made for Tuzistra® XR and was treated as a prepayment in the accounts to 30 June 2016 as the amount can potentially be offset against future royalty payments to Tris. The recoverability of the royalty prepayment is dependent upon the net sales levels of Tuzistra® XR achieved over a 30 month period from commercial launch and the amount expected to be recovered from Tris is now £1.5 million lower than initially expected. These transfers from prepayments into the Tuzistra® XR intangible asset were made on net sales estimates at the time, and will be amortised over the remaining useful economic life to 2036, consistent with other Tuzistra® XR milestone payments.

In the year ended 30 June 2016 there were additions of £4.1 million, of which £4.0 million related to the Moxatag® acquisition. A further £9.2 million was moved to "assets in use" following the approval and subsequent launch of Tuzistra® XR.

Impairments
During the year ended 30 June 2017 and the prior year there were no impairments.

Impairment Review
Goodwill and intangible assets that are not yet ready for use are subject to impairment review at least annually. Intangible assets in use are amortised over their expected useful lives and are reviewed when there is an indication that an impairment may have occurred. If the balance sheet carrying amount of the asset exceeds the higher of its value-in-use to the Group or its anticipated fair value less cost of sale, an impairment loss for the difference is recognised.

The impairment analysis is performed in line with Group's accounting policies detailed in note 1.

Value-in-use calculations are utilised to calculate recoverable amounts. Value in use is calculated as the net present value of the projected risk-adjusted, post-tax cash flows of the cash-generating unit (being the related products) relating to the intangible asset, and applying a discount rate of the Group post-tax weighted average cost of capital of approximately 10 per cent. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. In the case of not-in-use assets, these models have been extended to reflect five years post-launch cash flows. Cash flows beyond the five year period, or in the case of not-in-use assets, five years post launch, are projected over the useful life of the products. In relation to intangible assets in-use, cash flows reflect zero growth beyond the approved five year financial plan, or five years post-launch, for intangible assets not-in-use.

The determination of these underlying assumptions relating to the recoverability of intangible assets is subjective and requires the exercise of considerable judgement. These assumptions reflect past experience and/or external sources of information. Key assumptions include:

Tuzistra® XR	**Moxatag®**	**Assets not In Use**
• Speed of market penetration • Selling price and margins together with erosion rates after the end of patent protection due to generic competition • Competitive environment (launch of competing products, marketing initiatives etc.) • Discount factor - 10%	• Securing manufacturing supply • Speed of market penetration • Selling price and margins together with erosion rates after the end of patent protection due to generic competition • Competitive environment (launch of competing products, marketing initiatives etc.) • Discount factor - 10%	• Probability and timing of regulatory approval • Speed of market penetration. This included modelling a five year post- launch growth based on conservative market assumptions • Selling price and margins together with erosion rates after the end of patent protection due to generic competition • Competitive environment (launch of competing products, marketing initiatives etc.) • Discount factor - 10%

Changes in key assumptions about our business and prospects, or changes in market conditions, could result in an impairment charge. Certain events could occur which could lead to an impairment e.g. regulatory approval not received from the FDA.

None of the Group's intangible assets at either 30 June 2017 or 30 June 2016 was internally generated.

Tuzistra® XR

The product continued to see steady growth during its second cough cold season as market barriers were removed. Despite the steady growth seen over the last year, the script levels achieved were below expectation and therefore the carrying value of the intellectual property, including the royalty prepayment, has been reviewed for impairment. The licence to Tris' extended release technology is not attributable to any product but has been aggregated with the carrying value of Tuzistra® XR, and a possible impairment considered with reference to the Tuzistra® XR sales forecasts.

The value-in-use calculation for Tuzistra® XR, does not indicate a need to impair the carrying value of the intangible asset at 30 June 2017.

Moxatag®

The previous manufacturer of Moxatag®, Suir, went into liquidation in May 2016. During the year, the Company has progressed a new source of supply and intends to manufacture Moxatag® in 2018. There has been no triggering event during the year which necessitated an impairment review.

Assets not yet in use - cough cold development pipeline

At 30 June 2017, the assets not in use relate to future commercial products, CCP-07 and CCP-08. Milestone payments of US$6.0 million have been made for each of these products under the Tris development and licensing collaboration agreement. As these products are not yet in use they require an annual impairment test, and the value-in-use calculation performed, based on future milestones, royalties and revenues indicated that there was no impairment adjustment required at 30 June 2017.

The value-in-use calculation for both CCP-07 and CCP-08 was run on a combined model with more conservative market penetration sensitivities and a higher rate of discount applied. The calculations did not indicate a need to impair the carrying value of either intangible asset at 30 June 2017.

9. Inventories

	30 June 2017 £000	30 June 2016 £000
WIP	**-**	72
Finished goods	**1,050**	639
Less provision for obsolete inventories	**(117)**	(478)
Inventories	**933**	233

The cost of inventories recognised as an expense and included in cost of sales for the year ended 30 June 2017 amounted to £574,000 (2016: £744,000).

Included in the cost of inventories for the year ended 30 June 2017 is an obsolescence provision of £117,000 (2016: £478,000) where it is estimated that inventory will not be sold prior to becoming short dated.

The provision movement in the year ended 30 June 2017 related to the destruction of obsolete inventories. The expense included in cost of sales in relation to the inventory provision for the year to 30 June 2017 is £nil (2016: £478,000).

10. Held-to-maturity financial assets

Group held-to-maturity financial assets of £54,056,000 (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 year	**-**	**4,568**	**4,568**
Utilised during the year	**-**	**(3,166)**	**(3,166)**
Exchange differences	**-**	**(7)**	**(7)**
Unwinding of discount (note 4)	**1**	**-**	**1**
At 30 June 2017	**505**	**2,728**	**3,233**

Property Provision
The provision relates to dilapidation obligations on existing leases.

Revenue Provision
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 cycle of the business.

12. Derivative financial instruments

	30 June 2017 £000	30 June 2016 £000
Financial liabilities carried at fair value through profit or loss		
Current - Foreign currency forward contracts	**85**	281
Non-current - Foreign currency forward contracts	**-**	37
	85	318

The fair value of all foreign currency forward contracts are based on year-end prices in an active market.

13. Share capital

	Number issued 000	Number authorised 000	Nominal Value £	Issued £000	Authorised £000
Ordinary					
1 July 2016	**526,196**	**Unlimited**	**0.01**	**5,262**	**Unlimited**
Issue of shares	**249**	**-**	**0.01**	**2**	-
30 June 2017	**526,445**	**Unlimited**	**0.01**	**5,264**	**Unlimited**
Ordinary					
1 July 2016	443,442	Unlimited	0.01	4,434	Unlimited
Issue of shares	82,754	-	0.01	828	**-**
30 June 2016	526,196	Unlimited	0.01	5,262	Unlimited

Issue of shares - year ended 30 June 2017
249,026 shares were issued following the exercise of options under the LTIP and Sharesave schemes.

Issue of shares - year ended 30 June 2016
2,754,138 shares were issued following the exercise of options under the Long Term Incentive Plan and Sharesave schemes.

On the 13 May 2016, 80,000,000 shares were issued on a non-pre-emptive basis to institutional investors and certain directors at a placing price of 50 pence per share.

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	-	-	984	-	-	-	984
Exercise of share options	-	-	(317)	-	-	-	(317)

Exchange loss on translation of overseas subsidiaries	-	-	-	-	(100)	-	(100)
At 30 June 2016	**101,985**	**78,125**	**11,563**	**1,155**	**3,438**	**57,666**	**253,932**
Share-based payments charge	**-**	**-**	**1,535**	**-**	**-**	**-**	**1,535**
Exercise of share options	**-**	**-**	**(79)**	**-**	**-**	**-**	**(79)**
Exchange gain on translation of overseas subsidiaries	**-**	**-**	**-**	**-**	**70**	**-**	**70**
At 30 June 2017	**101,985**	**78,125**	**13,019**	**1,155**	**3,508**	**57,666**	**255,458**

15. Related party transactions

Identity of related parties

The Group consists of a parent, Vernalis plc, and principally three wholly owned trading subsidiaries. The main trading companies are Vernalis (R&D) Limited, the US registered Vernalis Therapeutics, Inc and Vernalis Development Limited.

The Parent company is responsible for financing and setting Group strategy. Vernalis (R&D) Limited carries out the Group research and development strategy, employs all the UK staff including the directors, and owns and manages all of the Group's intellectual property including Tuzistra® XR and Moxatag® (but excluding Vernalis®, Frova® and Migard® trademarks and any frovatriptan-related patents, all of which are owned by Vernalis Development Limited). Vernalis (R&D) Limited manages Group funds and makes payments, including the expenses of the Parent company. Vernalis Therapeutics, Inc. was registered in 2011 and began trading in 2014, employs all US staff and is the Group's sales and distribution company through which the commercial products are sold in the US market.

At 30 June 2017, an amount of £2,951 (30 June 2016: £4,903) 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 30 June 2017, £1,791 had been repaid by 31 July 2017. The amount due at 30 June 2016 was repaid in full by 30 September 2016.

16. 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 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 2017.

The Group holds the following financial instruments:

		30 June 2017					30 June 2016				
	Note	**Held-to-maturity investments**	**Loans and receivables**	**Fair value though profit and loss**	**Financial liabilities at amortised cost**	**Total**	Held-to-maturity investments	Loans and receivables	Fair value though profit and loss	Financial liabilities at amortised cost	Total
		£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000
Assets											
Trade and other receivables*		**-**	**304**	**-**	**-**	**304**	-	-	-	-	-
Non-current assets		**-**	**304**	**-**	**-**	**304**	-	-	-	-	-
Trade and other receivables*		**-**	**2,552**	**-**	**-**	**2,552**	-	4,874	-	-	4,874
Held-to-maturity financial assets	10	**54,056**	**-**	**-**	**-**	**54,056**	76,997	-	-	-	76,997
Cash and cash equivalents		**-**	**7,202**	**-**	**-**	**7,202**	-	7,021	-	-	7,021
Current assets		**54,056**	**9,754**	**-**	**-**	**63,810**	76,997	11,895	-	-	88,892
Total assets		**54,056**	**10,058**	**-**	**-**	**64,114**	76,997	11,895	-	-	88,892

Liabilities											
Trade and other liabilities		-	-	**1,156**	**115**	**1,271**	-	-	1,028	394	1,422
Provisions for other liabilities and charges	11	-	-	-	**394**	**394**	-	-	-	504	504
Derivative financial instruments	12	-	-	-	-	-	-	-	37	-	37
Non-current liabilities		-	-	**1,156**	**509**	**1,665**	-	-	1,065	898	1,963
Trade and other liabilities**		-	-	-	**6,095**	**6,095**	-	-	-	4,616	4,616
Provisions for other liabilities and charges	11	-	-	-	**2,839**	**2,839**	-	-	-	1,333	1,333
Derivative financial instruments	12	-	-	**85**	-	**85**	-	-	281	-	281
Current liabilities		-	-	**85**	**8,934**	**9,019**	-	-	281	5,949	6,230
Total liabilities		-	-	**1,241**	**9,443**	**10,684**	-	-	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 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 £2,513,000 (2016: £1,812,000) versus a discounted value of £1,156,000 as at 30 June 2017 (2016: £1,028,000).

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 £1,156,000 (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 market share
- Estimate of gross and net selling price
- Costs of manufacturing
- 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**
Credit - provision reversed during the year	**(10)**
Utilised during the year	**(1)**
Unwinding of discount (note 4)	**111**
Exchange differences	**28**
At 30 June 2017	**1,156**

Exchange differences are charged to sales and marketing expense.

17. 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.

18. Post-balance sheet events

In August 2017, the Company announced the FDA had issued a CRL regarding the NDA for CCP-08.