Mereo BioPharma

MEREO BIOPHARMA GROUP PLC
ANNUAL REPORT 2018

Working together to inspire, innovate and improve lives

Our mission is to provide new therapies to patients with chronically debilitating and life-limiting rare diseases that have few, if any, other treatment options

Our goal

To build an international biopharmaceutical company developing and commercializing new therapies for rare disease patients, focusing on bone/musculoskeletal, respiratory and endocrine indications.

DISCOVER MORE ON **PAGE 8**

Our approach

Our products originated in pharmaceutical companies where for strategic reasons they were not being progressed. With the streamlined efficiency of a small company and with our internal expertise and external resources we are able to rapidly progress the products into late-stage development and the planned subsequent commercialization.

* The Strategic Report, which has been prepared in accordance with the Companies Act 2006, has been approved and signed by order of the Board on April 28, 2019.

Charles Sermon
Company Secretary

DISCOVER MORE AT
MEREOBIOPHARMA.COM

HIGHLIGHTS

OPERATIONAL AND RECENT HIGHLIGHTS

Merger with OncoMed completed post-period on April 23, 2019

- Acquired two clinical stage programs – navicixizumab and etigilimab
  - » ADR program listed on NASDAQ on April 24, 2019, deepening engagement with a broader international pool of equity capital
- US operational base established in Redwood City, California
- Following completion of the merger unaudited total cash resources[1] were £53.9 million ($70.1 million)

BPS-804 (setrusumab) for Osteogenesis Imperfecta (OI)

- Completed enrollment of 112 patients in adult Phase 2b study in Q4 2018, expect top dose six-month data in Q2 2019 and twelve-month data from all 112 patients in Q4 2019
- Following the approval of our Pediatric Investigation Plan (PIP) by the European Medicine Agency (EMA) in July 2018, BPS-804 in pediatrics is now Phase 3 ready with the registration study design agreed
- Further positive interactions with the EMA through the PRIority Medicines for Europe scheme (PRIME) and Adaptive Pathways providing valuable input into our regulatory, manufacturing and commercial roadmap for BPS-804

MPH-966 (alvelestat) for severe Alpha-1 Antitrypsin Deficiency (AATD)

- Dosed first patient in a Phase 2 study in November 2018, expected to enroll approximately 165 patients in the EU and US with severe AATD with top-line data expected around the end of 2019
- In April 2018, the National Center for Advancing Translational Sciences (NCATS) issued the first phase of a grant award expected to total $10 million to the University of Alabama at Birmingham (UAB) to study MPH-966 in AATD, which Mereo is supporting through the supply of clinical trial material and regulatory input

BGS-649 (leflutrozole) for Hypogonadotropic Hypogonadism (HH)

- Positive top-line data from Phase 2b dose optimization study in 271 patients announced in March 2018 confirming mechanism of action and included statistically significant increases in the secondary endpoints and exploratory end points
- Six-month extension study data reported in December 2018 confirmed safety of long-term treatment with all three doses meeting the end points of normalization of total testosterone in more than 75% of subjects and improvement of luteinising hormone (LH) and follicle stimulating hormone (FSH), consistent with the previously reported six-month data
- Data package forming the basis of regulatory interactions in 2019 to confirm development plans towards potential partnering

BCT-197 (acumapimod) for Acute Exacerbations of Chronic Obstructive Pulmonary Disease (AECOPD)

- Agreed outline for the design of a pivotal Phase 3 clinical trial program with the US Food and Drug Administration (FDA) following successful Type B end of Phase 2 meeting
- Top-line data from Mereo's completed Phase 2 AECOPD study was presented at the American Thoracic Society (ATS) conference in May 2018
- Partnering discussions continue to progress

Corporate

- Appointed Wills Hughes-Wilson in February 2018 as Head of Patient Access and Commercial Planning
- Mereo continued to increase IP protection across the portfolio during the period with new patent applications being pursued for all four products
- Michael Wyzga and Deepa Pakianathan, Ph.D. appointed as Non-Executive Directors to the Mereo Board, following the merger with OncoMed

FINANCIAL HIGHLIGHTS

- Loss after tax for the 12-month period of £32.0 million (2017: £38.8 million) or 45 pence per ordinary share (2017: 56 pence per ordinary share)
- Total research and development costs significantly reduced to £22.7 million (2017: £34.6 million) reflecting the reduced clinical trial activity focused on our two rare product development programs and the completion of clinical trials for our two specialist pharma products
- Cash resources[(1)] of £27.5 million at December 31, 2018
- At completion of the merger with OncoMed unaudited total Group cash resources[(1)] were £53.9 million ($70.1 million)

DISCOVER MORE ON **PAGES 22 to 23**

(1) Cash resources is defined as the aggregate of cash and short-term deposits and short-term investments.

ONCOMED OVERVIEW

A merger that delivers a platform for the future

A combination for long-term value

STRATEGIC COMBINATION OF MEREO BIOPHARMA AND ONCOMED[1]

Combined portfolio of six products with near-term value catalysts

- Phase 2 readouts in core rare products in 2019 (Mereo's BPS-804 and MPH-966)
- Potential partnerships of Mereo's BCT-197 and BGS-649 programs
- Potential partnership of OncoMed's OMP-305B83
- Ongoing Celgene collaboration with an option to license OncoMed's OMP-313M32

6 products

U.S. and U.K. stock market listing

- Increased liquidity for shareholders
- More diversified, global shareholder base
- U.S. institutional specialist healthcare investors

74.2%/25.8%

Ownership split on completion
74.2% Mereo/25.8% former OncoMed shareholders

MPH U.K. stock ticker

MREO U.S. stock ticker

Strong combined cash position

Extends Mereo's operational runway into mid 2020

Opportunity to further extend through a balance between partnering and further equity raising

£53.9m

Proforma unaudited combined cash resources[2] of £53.9 million ($70.1 million) at April 23, 2019

Enhanced team, capabilities and infrastructure

Combined expertise in product development and regulatory affairs

Two new biopharma industry-experienced independent non-executive directors

U.K. headquarters in London

U.S. operational base in Redwood City, California

(1) OncoMed Pharmaceuticals, Inc.

(2) Cash resources is defined as the aggregate of cash and short-term deposits and short-term investments.

KEY ONCOMED PRODUCTS

OMP-305B83 (NAVICIXIZUMAB)

("NAVI"): bispecific monoclonal antibody that targets and inhibits both Delta-like ligand 4 and vascular endothelial growth factor and is in a Phase 1b study in ovarian cancer

OMP-313M32 (ETIGILIMAB)

("anti-TIGIT"): antibody that targets the T-cell immunoreceptor with immunoglobulin and ITIM domains (TIGIT), an inhibitory receptor that is thought to stop T-cells from attacking tumor cells and is in a Phase 1 study for solid tumors

DIRECTORS

2
New Board members

Following the closing of the merger with OncoMed, we welcome two new directors to our Board, Dr. Deepa Pakianathan and Mr. Michael Wyzga.

DEEPA R. PAKIANATHAN
NON-EXECUTIVE DIRECTOR

Deepa Pakianathan, Ph.D., has served on our Board of directors following completion of the merger with OncoMed. Since 2001, she has been a Managing Member at Delphi Ventures, a venture capital firm focused on biotechnology and medical device investments. She currently serves on the boards of directors of Alder Biopharmaceuticals, Inc., Karyopharm Therapeutics, Inc., and Calithera Biosciences, Inc. Deepa received a B.Sc. from the University of Bombay, India, an M.Sc. from The Cancer Research Institute at the University of Bombay, India, and an M.S. and Ph.D. from Wake Forest University.

MICHAEL WYZGA
NON-EXECUTIVE DIRECTOR

Michael Wyzga joined the Mereo Board following completion of the merger with OncoMed. He is currently the President of MSW Consulting Inc., a strategic consulting group focused in the life sciences area. His past experience includes Chief Executive Officer and board member of Radius Health, Inc. and prior to that he was Chief Financial Officer of Genzyme Corporation. He is currently a member of the boards of directors of Exact Sciences Corporation and LogicBio and is Chairman of the board of directors of GenSight Biologics S.A. and X4 Biologics. Michael received an M.B.A. from Providence College and a B.S. from Suffolk University.

DISCOVER MORE ON **PAGE 26**

INVESTMENT CASE

A sustainable platform for growth

Acquiring, developing and commercializing new therapies for rare diseases

INVESTMENT THESIS

BUILDING AND ACQUIRING

To build an international biopharmaceutical company developing and commercializing new therapies for rare diseases based on products acquired from major pharmaceutical companies

6
products acquired from Novartis, AstraZeneca and OncoMed

DIVERSIFIED LATE-STAGE PORTFOLIO

We are focused on our diversified product portfolio in the areas of bone, respiratory, endocrine and oncology

6
clinical-stage products

RECORD OF SUCCESSFUL DELIVERY

We have successfully completed two large Phase 2 studies, fully enrolled our Phase 2 for adults with osteogenesis imperfecta and initiated our Phase 2 study for alpha-1 antitrypsin deficiency

4
Phase 2 studies – two completed and two underway

COMMERCIALIZATION

Developing our "go to market" strategy for our two rare disease products BPS-804 and MPH-966 which we plan to commercialize directly

2
Rare disease products in our pipeline

EXPERIENCED TEAM

Experienced management team and Board with expanded team following the merger

50
employees, including 7 experienced NEDs (following the merger)

ACTIVE BUSINESS DEVELOPMENT

Active business development with multiple out-licensing opportunities for our non-rare disease products and continued product deal flow for options to expand our rare disease portfolio

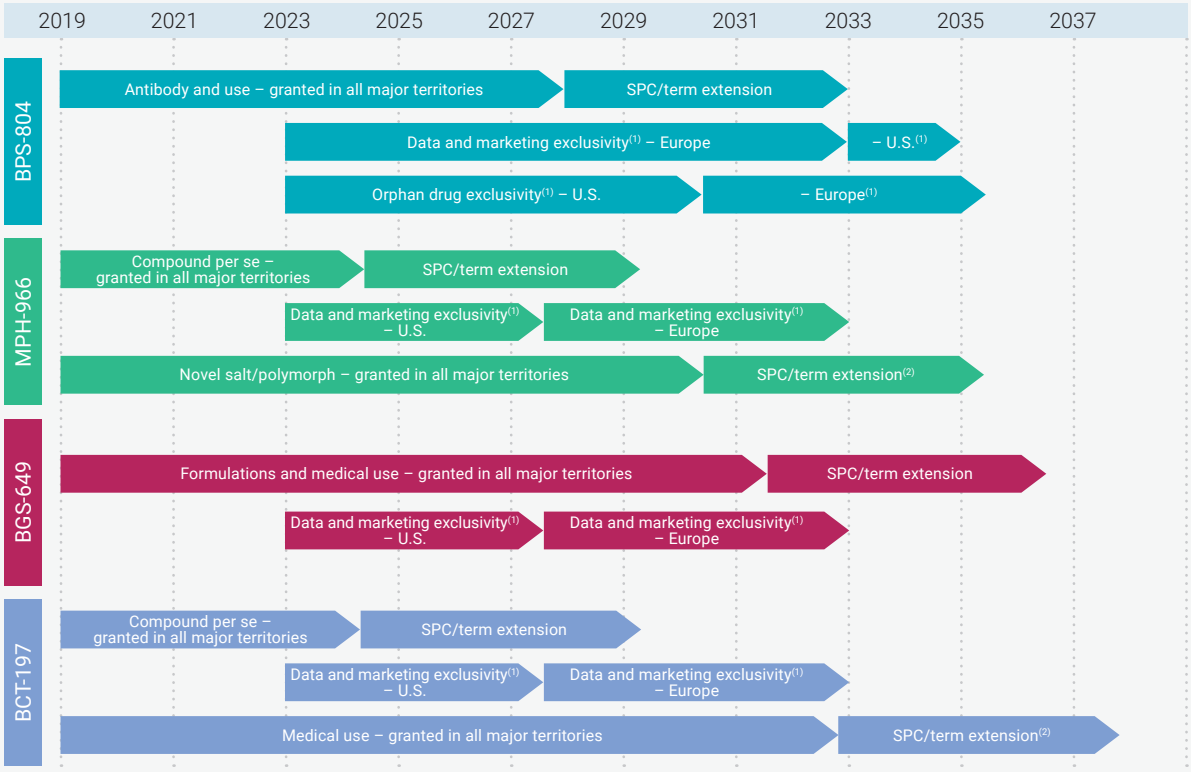
>100
new opportunities reviewed since inception

DISCOVER MORE ON **PAGES 6 to 9**

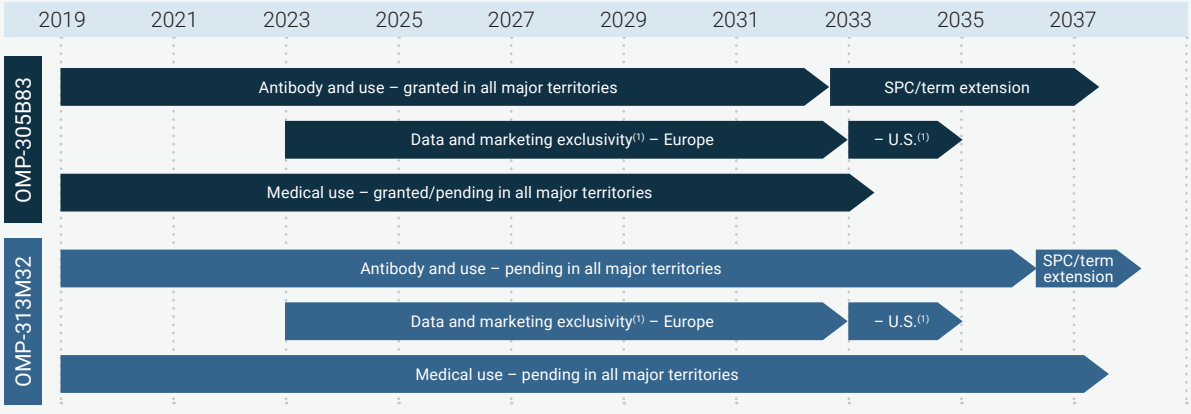
Strong IP protection

Across our product portfolio

Mereo IP



OncoMed IP



(1) Dependant on MA date.

(2) Alternative SPC extension.

OUR PORTFOLIO

A diversified product portfolio

In bone, respiratory, endocrine and oncology

Mereo is an innovative leader in the biopharma industry with a focus on acquiring, developing and optimizing the value of innovative medicines designed to address significant unmet medical needs in rare diseases and improve patient quality of life.

Rare diseases

We are focusing on developing and commercializing rare disease therapies in the areas of: Bone, Respiratory and Endocrine

OUR PRODUCTS

We have built a mid- to late-stage portfolio of exceptionally well characterized novel products, for the treatment of diseases with considerable unmet medical need. Each of these programs has a comprehensive dataset from both pre-clinical and initial clinical studies.

RARE DISEASE PRODUCTS

BPS-804 (SETRUSUMAB)

BPS-804 is a fully human monoclonal antibody targeting sclerostin, which is being developed to improve bone strength and thereby reduce fractures in the orphan disease osteogenesis imperfecta (OI).

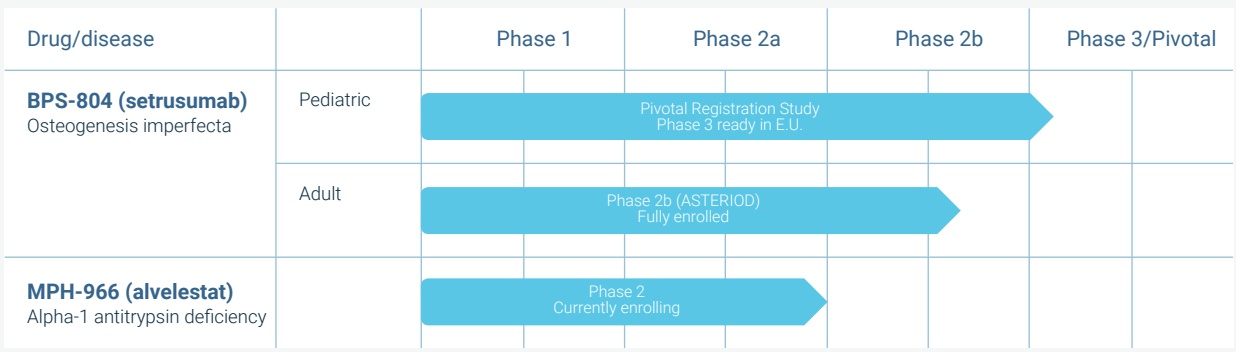
DISCOVER MORE ON **PAGE 14**

MPH-966 (ALVELESTAT)

MPH-966 is a novel, oral small molecule which is being developed for the treatment of severe alpha-1 antitrypsin deficiency (AATD), a potentially life-threatening, rare genetic condition.

DISCOVER MORE ON **PAGE 16**

We have a diversified and late-stage pipeline of rare disease products.



Bone/musculoskeletal

BPS-804
Setrusumab

Potential new products

Respiratory

MPH-966
Alvelestat

Potential new products

Endocrine

Potential new products

OUR PARTNERSHIPS

We seek strategic relationships for further clinical development and commercialization of our non-rare disease therapies.

DISCOVER MORE AT **MEREOBIOPHARMA.COM/PARTNERING**

NON-RARE PRODUCTS

BCT-197 (ACUMAPIMOD)

BCT-197 is an oral p38 MAP kinase inhibitor being developed as a 5 day short course therapy during a severe acute exacerbation of COPD to reduce the risk of recurrent exacerbations.

BGS-649 (LEFLUTROZOLE)

BGS-649 is a novel once-weekly oral aromatase inhibitor being developed as a first-line therapy for the treatment of obese men with hypogonadotropic hypogonadism (HH).

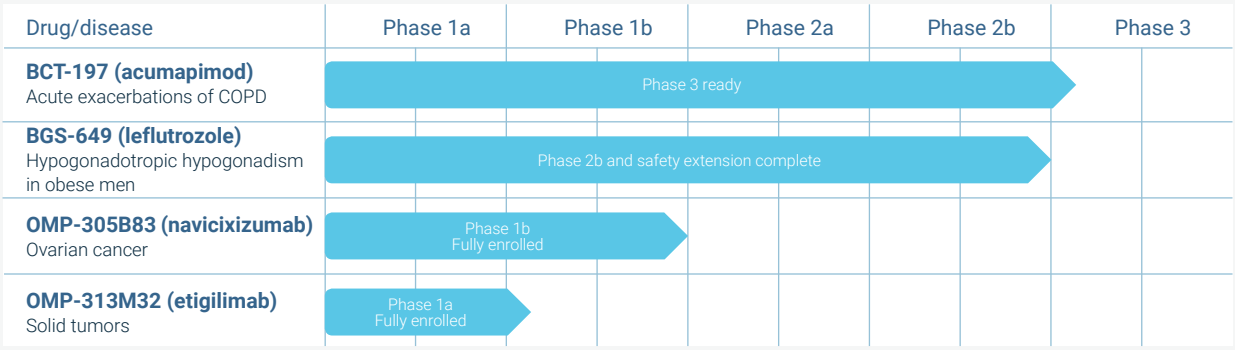
OMP-305B83 (NAVICIXIZUMAB)

OMP-305B83: bispecific monoclonal antibody that targets and inhibits both Delta-like ligand 4 and vascular endothelial growth factor and is in a Phase 1b study in ovarian cancer.

OMP-313M32 (ETIGILIMAB)

OMP-313M32: antibody that targets the T-cell immunoreceptor with immunoglobulin and ITIM domains (TIGIT), an inhibitory receptor that is thought to stop T-cells from attacking tumor cells and is in Phase 1 study for solid tumors.

Non-rare disease pipeline



BUSINESS MODEL AND STRATEGY

A strategy that continues to evolve

Increasing focus on commercializing our products for rare diseases

CAPITAL EFFICIENCY

Highly selective acquisitions

We have to date completed the acquisition of four products from large pharmaceutical companies.

Efficient and thorough development

We have rapidly developed our products through clinical development and have reported positive top-line data for two of our products.

Routes to market

Commercialize

We intend to establish our own sales and marketing infrastructure for our rare disease portfolio.

Partner

We intend to partner our non-rare disease products for further development and commercialization at appropriate points.

ROUTES TO MARKET

For our existing non-rare disease products including the oncology products we acquired through the OncoMed merger, the Group plans to partner or sell the products at an appropriate stage in their development prior to commercialization, recognizing the need for a larger sales infrastructure and greater resources to take these products to market. This may be following dose optimization or, in certain cases, following one or both of the Phase 3 studies required for product approval and registration.

DISCOVER MORE AT
MEREOBIOPHARMA.COM/PARTNERING

STAKEHOLDER VALUE CREATION

Patients | **Partners** | **Shareholders** | **Employees**

HIGHLY SELECTIVE ACQUISITIONS

Our highly experienced Business Development team pursues products which fulfill our strict diligence criteria and aims to structure deals with a "win / win" for both sides of the transaction. Once opportunities are identified they are supported by our internal clinical, CMC, pricing and IP teams. This enables us to rapidly confirm the potential of the opportunities and, for the successful candidates, plan the further development.

What we have achieved

Developed strong relationships with senior management of pharmaceutical and biotechnology companies. This "buy in" is key to accessing quality products and executing the deal.

Acquired or licensed four products from two Pharmaceutical companies. Reviewed over 100 new opportunities from Pharmaceutical and biotechnology companies since inception.

What's next

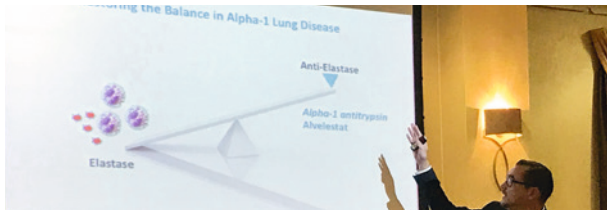
We are focusing on the therapeutic areas where we have most internal expertise, endocrine, respiratory and bone. However, where a clearly compelling opportunity arises in a rare disease where our internal resources are aligned and we believe we can build any additional capabilities quickly, we will consider this too.

EFFICIENT AND THOROUGH DEVELOPMENT

Our experienced team designs and manages the development of the portfolio, while outsourcing the execution of trials and manufacturing to third party CROs and CMOs. This enables us to focus on the truly value add aspects of rare disease drug development.

What we have achieved

Rapid transfer of compounds from the originator to Mereo and into the next stage of clinical development. Positive Phase 2 and 2b data in two indications. Novel trial designs and endpoints in two rare diseases. Worked with regulatory agencies to craft pathways to expedite drugs to patients. Begun interactions with Health Technology Agencies and Payers. Forged strong relationships with patient groups.



COMMERCIALIZE

We continue to plan for the commercialization of our two rare disease products and have initiated interactions with potential collaborators to help us accomplish this. We strengthened our focus on a "go to market" approach, including at Executive Committee level with the appointment of a Head of Patient Access & Commercial Planning with specific rare disease commercialization experience. We have consulted extensively with our customer base over the course of the year to understand the markets and to bring key insights into our rare disease programs, as part of our "go to market" strategy.

What's next

We will continue to engage with potential partners and service providers to help us prepare for successful launch and commercialization of our two rare disease products, with an initial focus on the U.S. and Europe. We are seeking to use all pathways, e.g. our PRIME status for BPS-804, to continue to facilitate the most effective and efficient pathway to market. Our objective is to accomplish timely and successful launch and commercialization to maximize the value of our rare disease products for all stakeholders – healthcare systems, investors, physicians, employees and, crucially, the patients.

PARTNER

We intend to develop our non-rare programs to a value inflection point clearly demonstrating the clinical value with regulatory feedback where appropriate, then partner with a company with the resources and commercial infrastructure necessary to take the product to the market in a larger non-rare indication.

What's next

We have completed positive Phase 2 trials on BCT-197 and BGS-649, with positive data also seen in ongoing oncology trials from OncoMed, and have recently completed a successful FDA end of Phase 2 meeting for BCT-197. We have initiated or will initiate partnering processes for all our non-rare disease programs and look forward to successful completion of commercial partnering arrangements.

CHAIRMAN AND CEO'S STATEMENT

Delivering on our strategy

Building Mereo BioPharma into a leader in development of products for rare diseases

"The Group's strategy is focused on development and commercialization of our rare disease product portfolio and on partnering our non-rare disease products and 2018 has been another year of significant progress towards this goal. Throughout the year the Board continued to believe that a listing in the US on the NASDAQ Global Market would be in the best interests of the shareholders. With the combination with OncoMed now closed we look forward to engaging with the specialized US healthcare institutional investors and to further diversifying our rare disease portfolio."

DR. PETER FELLNER
CHAIRMAN

"We continued to deliver against our corporate milestones as well as our clinical milestones on both our rare and non-rare disease products this year. Notably, we have further strengthened the Executive leadership team as we design and deliver our "go-to-market" strategy. As we progress our plans to commercialize our rare disease product portfolio, we continue to build our multi-stakeholder collaborative approach that is an essential element of achieving true, reimbursed patient access to rare disease medicines."

DR. DENISE SCOTS-KNIGHT
CHIEF EXECUTIVE OFFICER

Mar 2015
Mereo was incorporated

Jul 2015
Mereo acquired three products from Novartis

Jun 2016
Mereo joined LSE AIM

Introduction

The Group's strategy continues to be to build a portfolio of rare disease products acquired from pharmaceutical and large biotechnology companies and to develop these through regulatory approval and subsequent commercialization.

Rare (and orphan) diseases represent an attractive development and commercialization opportunity for the Company, since they typically have high unmet medical need and can often utilize regulatory pathways that facilitate acceleration to the potential market. Development of rare disease products generally involves close co-ordination with patient organizations and key opinion leaders (KOLs) and investigators. Patients are typically treated at a limited number of specialized sites, which helps identification of the patient population and enables a small targeted sales infrastructure to commercialize the products in key markets.

The Group plans to partner or sell our existing non-rare disease products prior to commercialization, recognizing the need for a larger sales infrastructure and greater resources to take these products to market.

We have made significant progress across all our programs both in terms of clinical development and regulatory strategy. We were pleased to announce positive results from our Phase 2b study in Hypogonadotropic Hypogonadism (HH) in March 2018 and the completion of enrollment with 112 patients into our Adult Phase 2b study in Osteogenesis Imperfecta (OI) and the initiation of our 165 patient Phase 2 study into severe Alpha-1 Antitrypsin Deficiency (severe AATD) in Q4 2018. We were also admitted to the PRIME pathway in Europe, a regulatory process in Europe that is designed to provide faster approval timelines and access to medicines for patients. With both our OI and severe AATD programs well underway, we continue to expect to deliver some important clinical data on our two core rare disease products in 2019.

With respect to our long term funding strategy, earlier in 2018 we engaged in a process to consider an offering and listing of American Depositary Shares ("ADSs") in the United States ("U.S.") on the Nasdaq Global Market. The Board decided to postpone this process in April 2018 in the best interests of our shareholders and based on market conditions at the time. We continued to believe that the Nasdaq Global Market would enable us to access a broad number of specialized US healthcare investors. In Q4 2018 we decided to explore opportunities to merge with a Nasdaq listed biopharmaceutical company. This culminated in our announcement of the merger with OncoMed Pharmaceuticals, Inc. ("OncoMed") on December 5, 2018. The merger with OncoMed, which completed on April 23, 2019, brings to Mereo two clinical stage oncology products with potential for partnering, a strengthened balance sheet, a listing on the Nasdaq Global Market, an existing diversified U.S. institutional shareholder base, additional liquidity and operations in the U.S. with expertise in regulatory, quality assurance and finance. Following the merger with OncoMed, we now have proforma cash resources of approximately £53.9 million ($70.1 million), sufficient to support our existing programs into mid 2020.

We continue to actively review opportunities from pharmaceutical and large biotechnology companies to expand our existing portfolio of rare disease products which is an important component of our business model.

The OncoMed merger

Our Board has continued to believe that Nasdaq is an appropriate exchange for a development stage biopharmaceutical company. This is particularly in view of the deep pools of capital available for healthcare and the broad range of investors who invest in Nasdaq-traded healthcare companies. Throughout 2018 we continued to explore a range of options for a Nasdaq listing and the merger with OncoMed emerged as the priority. The merger provides us with improved liquidity, a broad range of U.S. shareholders, a U.S. base and additional expertise at both the operational and Board level. It is a platform for our future.

DISCOVER MORE ON **PAGE 2**

Oct 2017

Mereo acquired additional product from AstraZeneca

Dec 2018

Mereo announced merger with OncoMed

Apr 2019

Mereo merger with OncoMed

CHAIRMAN AND CEO'S STATEMENT
CONTINUED

BUSINESS OVERVIEW

Rare Disease Products

BPS-804 (setrusumab)

BPS-804 is a human monoclonal antibody targeting sclerostin which we are developing for the treatment of OI, also known as brittle bone disease, which we acquired from Novartis in 2015. OI is characterized by fragile bones that fracture easily. An anti-sclerostin is thought to be particularly well suited to treat OI since it has been demonstrated to be a strong bone building agent that also reduces the resorption of bone. We made significant progress across regulatory, clinical and manufacturing operations for this product during 2018 including completion of enrollment of 112 patients into our adult Phase 2b study in Q4 2018.

We now expect to report 6-month data at the top dose of BPS-804 on a small but significant open label cohort of patients in Q2 2019. These data will include the primary endpoint of change from baseline of Bone Mineral Density (BMD) as measured by High Resolution peripheral Quantitative Computed Tomography (HR-pQCT) and the secondary endpoints of BMD using traditional two-dimensional dual-energy X-ray absorptiometry (DXA) measurement together with measurement of serum bone biomarkers. We expect to report the 12-month data on this same cohort of patients and for the remaining dose ranging blinded portion of the Phase 2b in Q4 2019. Hence, all the data on all 112 patients following 12-month treatment with BPS-804 will be reported before the end of 2019.

Following approval of our Pediatric Investigation Plan (PIP) by the EMA we have continued to gather regulatory input into our program through the Adaptive and PRIME pathways. Our Phase 3 registration trial in children will be based on a primary endpoint of fracture rate over a 12-month period and will be conducted in approximately 165 children with severe disease aged 5-18 years old. We also intend to validate HR-pQCT as a biomarker in this study. This is a key step in our plans to commercialize BPS-804 in both children and adults.

MPH-966 (formerly AZD-9668) (alvelestat)

In October 2017, we acquired an exclusive license for MPH-966 from AstraZeneca together with an option to acquire the IP based on certain milestones. MPH-966 is a novel oral small molecule we are developing for the treatment of severe AATD, a potentially life-threatening, rare genetic condition affecting an estimated 50,000 patients in North America and 60,000 patients in Europe. AATD is caused by a lack of alpha-1 antitrypsin, or AAT, a protein that protects the lungs from enzymatic degradation. This degradation leads to severe debilitating diseases, including early-onset pulmonary emphysema, a disease that irreversibly destroys the tissues that support lung function. MPH-966 is designed to inhibit neutrophil elastase (NE), a neutrophil protease and a key enzyme involved in the destruction of lung tissue. We believe the inhibition of NE has the potential to protect AATD patients from further lung damage.

We have initiated a Phase 2 proof-of-concept clinical trial in approximately 165 patients with severe AATD with the first patient enrolled in Q4 2018. Top-line data is expected around the end of 2019. The primary endpoint for this study is based upon the biomarker desmosine which has been shown to correlate with deterioration of lung tissue as determined by CT scans. If the results are favorable, we intend to seek regulatory advice on the design of a pivotal trial.

As part of our development plans for MPH-966 we are supporting certain investigator-led studies and we are pleased to report that in April 2018, Mark T. Dransfield, M.D. and the team at The University of Alabama at Birmingham were awarded the first phase of an NCATS grant expected to total $10 million to study the safety, tolerability and effectiveness of MPH-966 as an improved non-invasive treatment for patients with AATD. We continue to actively support this program including the supply of clinical trial materials and regulatory support.

Non-Rare Disease Products

BGS-649 (leflutrozole)

BGS-649 is a once-a-week oral treatment for HH in obese men, which we acquired from Novartis in 2015. BGS-649 is highly differentiated from current marketed and clinical-stage products in that it acts by restoring a patient's own testosterone rather than delivering exogenous testosterone. BGS-649 is a novel aromatase inhibitor that inhibits conversion of the patient's own testosterone to oestradiol, thereby increasing testosterone levels and improving rather than reducing the hormones LH and FSH, which are important for fertility. We successfully completed a Phase 2b dose optimization study in 271 patients with positive top-line data announced in March 2018 that confirmed the mechanism of action and included statistically significant increases in the secondary endpoints of LH and FSH at all three doses at week 24. In addition, the results included a demonstrated improvement in the exploratory endpoint of total motile sperm count across all three doses versus placebo and a positive trend on reduction of fatigue in the exploratory patient reported outcomes.

A 6-month extension study enrolled 143 patients to confirm the safety of long-term treatment and provide additional clinical data was reported in Q4 2018. The study was completed by 88 patients and successfully demonstrated that none of the doses of BGS-649 met the lower bound (95% confidence interval) of the pre-specified safety criterion of a greater than 3% reduction in lumbar spine BMD after 48 weeks of treatment. All three doses met the endpoints of normalization of total testosterone in more than 75% of subjects and improvement of luteinising hormone (LH) and follicle stimulating hormone (FSH), consistent with the previously reported 6-month data. The data from both studies, together with the comprehensive historical data package, will form the basis of regulatory interactions in 2019 to confirm the development plans towards commercialization of BGS-649 and the significant market opportunity it represents which will be important for partnering this program.

BCT-197 (acumapimod)

BCT-197 is an oral inhibitor of p38 MAP kinase which we acquired from Novartis in 2015 and that we are developing as a short-course acute therapy aimed at treating the inflammation associated with AECOPD. P38 MAP kinase inhibitors have a strong anti-inflammatory action. The standard of care for AECOPD has changed little in the past 20 years even though the acute exacerbations are generally accepted to account for the majority of costs associated with management of COPD patients.

In December 2017 we announced positive top-line data from a Phase 2 dose optimization study in 282 patients. The full results

which were reported in May 2018 demonstrated the potent anti-inflammatory effect of BCT-197 with dose dependent, statistically significant reductions in both high sensitivity C-Reactive Protein (hsCRP) and fibrinogen. hsCRP remained suppressed for the period out to day 180. Furthermore, there was a statistically significant reduction of more than 50% in the pre-specified endpoint of re-hospitalizations for the treatment of COPD at days 90 through 150 in the high-dose group following a short course of three doses of treatment over five days. This effect was even more pronounced in patients with more than two exacerbations per year. Consistent with the above, there was a significant reduction in the use of corticosteroid and antibiotics in the follow-up phase of the study.

We have also completed a Drug Drug Interaction (DDI) study examining the effect of itraconazole, a potent inhibitor of Cytochrome P450 3A4 (CYP3A4), on BCT-197. The results show that there is minimal effect and we therefore believe that there will be no need for dose adjustment of BCT-197 for patients taking CYP3A4 inhibitors.

In line with our stated strategy for our non-rare products we have commenced discussions with potential partners for BCT-197 and these continue to progress. In parallel with these discussions, we progressed regulatory discussions with the FDA culminating in the end of Phase 2 Type B meeting. We recently reported the successful outcome of this meeting which provided clarity on the pivotal Phase 3 requirements through to approval. We plan to continue the regulatory interactions in Europe while progressing with potential partnering opportunities.

Navicixizumab (anti-dll4/VEGF bispecific, OMP-305B83)

Navicixizumab, acquired from OncoMed, is an anti-DLL4/VEGF bispecific antibody targeting both DLL4 in the Notch cancer stem cell pathway and vascular endothelial growth factor (VEGF). This antibody is intended to have anti-angiogenic plus anti-cancer stem cell activity. In a Phase 1a clinical trial, navicixizumab demonstrated single-agent anti-tumor activity and was safe enough to be administered on a continuous basis.

We are currently conducting a Phase 1b clinical trial of navicixizumab in combination with paclitaxel in patients with heavily pre-treated platinum-resistant ovarian cancer. The trial was expanded to enroll up to 60 patients in Q4 2018. Interim Phase 1b results were presented at the European Society for Medical Oncology in Q4 2018. The patients had received a median of four prior therapies, all of whom had received prior paclitaxel and 69% had received prior bevacizumab. 22 of the 26 patients (85%) treated with the novel regimen experienced clinical benefit. Notably 11 of the 26 patients (42%) achieved a partial response and the median progression-free survival was 5.4 months (95% CI: 3.5–8 months).

We plan to undertake regulatory interactions in the US to determine the next steps for navicixizumab in platinum resistant ovarian cancer patients who have received at least two prior therapies and to pursue partnering of the program in parallel.

Etigilimab (anti-tigit, OMP-313M32)

TIGIT (T-cell immunoreceptor with Ig and ITIM domains) is an inhibitory receptor that is thought to stop T-cells from attacking tumor cells. Our anti-TIGIT therapeutic candidate etigilimab is intended to activate the immune system through multiple mechanisms and enable anti-tumor activity. A Phase 1a/b clinical trial enrolled patients with advanced solid tumors into either a Phase 1a single-agent portion (dose escalation in all patients and expansion in selected tumor types) or Phase 1b combination portion in selected tumor types with nivolumab (dose escalation); 18 patients were treated in the Phase 1a dose escalation study with doses up to 20mg/kg every two weeks. Tumor types included colorectal cancer (6), endometrial cancer (2), pancreatic cancer (1) and 8 other tumor types. No dose limiting toxicities were observed and the recommended Phase 2 dose was the top dose of 20mg/kg biweekly. The Phase 1b is ongoing.

The TIGIT program is subject to an exclusive license option with Celgene Corporation (CELG) as part of OncoMed's previous broad collaboration agreement. If Celgene opts in we would receive a $35 million up-front option fee and an additional development milestone.

New Product Opportunities

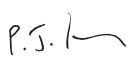
We continue to seek and review new product opportunities to expand and grow our portfolio in rare diseases for bone, respiratory and endocrine indications where we have built our expertise in the Company with the aim of becoming a leading player. There continues to be a good number of opportunities arising from pharma and large biotechnology companies as they continue to reappraise development pipelines and focus on a smaller number of therapeutic areas.

Outlook

2019 is set to be a transformational year for the Company with key data expected on both of our core rare disease products in OI and alpha-1 antitrypsin deficiency as well as the listing of the Company on Nasdaq with a more diversified shareholder base. We expect to report our initial 6-month data for BPS-804 in OI in Q2 2019 and the remaining 12-month complete dose ranging data on all 112 patients enrolled in Q4 2019. We also expect to announce the results of our Phase 2 study for MPH-966 around the end of 2019 following the initiation of the trial in Q4 2018.

We continue to focus on partnering opportunities for our non-rare disease products BCT-197 and navicixzumab and BGS-649, and to actively evaluate new product opportunities in rare diseases. In addition, we are planning our future "go-to-market" commercialization strategy for BPS-804 which includes active engagement with the wider stakeholder community in OI, including Key Opinion Leaders (KOLs), investigators, patient groups, regulators, health technology assessment bodies (HTAs) and payers.

Finally, we remain funded through our key milestones in 2019 and into mid 2020, and will evaluate the opportunities to strengthen the balance sheet through a balanced approach.



Dr. Peter Fellner
Chairman
April 28, 2019

Dr. Denise Scots-Knight
Chief Executive Officer
April 28, 2019

(1) Cash resources defined as cash, short-term deposits and short-term investments.

OUR RARE DISEASE PRODUCTS

Setrusumab

BPS-804

Acquired from Novartis in 2015

BPS-804 is a fully human monoclonal antibody targeting sclerostin, which is being developed to improve bone strength and thereby reduce fractures in the orphan disease osteogenesis imperfecta (OI).

OVERVIEW

OI is a rare genetic and chronic bone disorder, commonly known as brittle bone disease, which is characterized by fragile bones that fracture easily. In addition to fractures, individuals with OI often have muscle weakness, hearing loss, fatigue, joint laxity, curved bones, scoliosis and short stature.

The majority of cases of OI (up to 90%) are caused by a dominant mutation in the genes coding for type I collagen, a key component of healthy bones. Current treatment of OI is based on supportive care, focusing on treating fractures and maximizing mobility. To date, there are no FDA or EMA-approved treatments.

DISCOVER MORE AT
MEREOBIOPHARMA.COM/FOCUSON

CLINICAL STUDIES COMPLETED TO DATE:

- 83 patients have received BPS-804, including patients with moderate OI
- Statistically significant improvement on bone mineral density and bone biomarkers in OI
- Well tolerated in target population

Current study

Fully enrolled

112

OI type I, III and IV patients

Phase 2b

- Confirmed defect in the COL1A1/2 by genetic test
- More than one fracture in 24 months

Study design

- Randomized
- Double blind
- Open label arm

Trial arms

Three blinded dosing arms and open label arm at top dose

Study duration

52 weeks

Commenced: H1 2017

Pediatric registration study design agreed with EMA

THE OPPORTUNITY

Current treatment of OI is based on supportive care, focusing on treating fractures and maximizing mobility. To date, there are no FDA or EMA approved treatments. Therefore, the opportunity for BPS-804 is to be the first FDA and E.U. licensed medicine in the orphan disease.

DISCOVER MORE ON **PAGES 6 to 9**

Bringing the patient perspective into our work

We are working actively with the OI community representative organizations on a consistent basis to better understand their experience and the impact that OI has on lives and families, and to identify where we can make a meaningful difference. We engage patient representatives in every step of our development program, for example, OI patient representatives participated in our PRIME Kick-Off Meeting with the EMA in July 2018, and with our first engagements with the payer community in September. The trans-Atlantic collaborative approach is also important, because rare diseases require co-operation in order to pool experts and expertise, which is often scarce and scattered. Mereo participated in the OIF USA's biannual National Conference in July 2018 and in the many 50th anniversary events for the Brittle Bone Society throughout the year, which gives us the opportunity to stay close to the needs and expectations of the OI community, including patient representatives, families and expert treating physicians.

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MEREOBIOPHARMA.COM

Prevalence

85%–90%

are linked to a gene mutation that produces abnormal type 1 collagen

OI types I, III and IV occur in

72%–77%

of total OI population

~6.2

OI cases per 100,000 population in the U.S.

~10

OI cases per 100,000 population in the E.U.

Symptoms

- Frequent bone fractures and loose joints
- Early hearing loss
- Respiratory problems
- Brittle teeth

Actively working with patients and their OI advocacy groups, including the development of an OI-specific quality of life patient reported outcome tool

OUR RARE DISEASE PRODUCTS

Alvelestat

MPH-966

Acquired from AstraZeneca in 2017

MPH-966 is an oral neutrophil elastase inhibitor being developed as an innovative new therapy for the treatment of alpha-1 antitrypsin deficiency (AATD).

OVERVIEW

AATD is a genetic disorder that causes a deficiency of alpha-1 antitrypsin and is characterized by severe respiratory and liver disease. There are approximately 50,000 and 60,000 severe patients in North America and Europe, respectively, who are either Null or PiZZ. It can cause pulmonary emphysema, a life-threatening lung disease, resulting in severe shortness of breath and wheeze.

The lung damage in AATD results from the loss of the normally protective effect of alpha-1 antitrypsin against damaging enzymes released during inflammation, specifically neutrophil elastase, that lead to the irreversible destruction of the lungs' supportive elastic tissues. The aim is to use MPH-966 to inhibit neutrophil elastase activity and prevent further damage to patients' lungs.

DISCOVER MORE AT
MEREOBIOPHARMA.COM/FOCUSON

CLINICAL STUDIES COMPLETED TO DATE:

- 12 clinical trials and >1,100 subjects treated
- Phase 1 and 2 studies in related indications:
  - Bronchiectasis: Proof of Concept (PoC) achieved with statistically significant improvement in FEV1
  - Cystic fibrosis: reduction in elastin degradation biomarker (desmosine) consistent with Mechanism of Action (MoA)
- Four COPD studies, which add to the safety database
- Safe and well tolerated across the studies

Current study

Phase 2 study

in patients with severe AATD

ongoing

Phase 2

Trial arms	Planned enrollment
Three arms (two doses versus placebo)	165 patients

Commenced: Q4 2018

Estimated prevalence of target patients (PiZZ and Nulls)

North America

~50,000

Europe

~60,000

- Genetic mutation produces deficiency through abnormal folding of the protein or zero production of the protein
- Mutations in SERPINA1 gene chromosome 14
- Homozygotes (ZZs) and PiZZs have severe disease

Symptoms

- Age 20–50 – shortness of breath, wheeze and reduced exercise tolerance
- PiZZ and Null adults develop early-onset emphysema
- Reduced life expectancy

THE OPPORTUNITY

MPH-966 aims to be the first oral medicine for the treatment of AATD, in a disease where the only alternative is a weekly intravenous infusion.

DISCOVER MORE ON PAGES 6 to 9

Learning from the experts – spending time with the Alpha-1 Spain leadership during the Global gathering of the Alpha community in Dubrovnik

Bringing the patient perspective into our work

We are working actively with the alpha-1 community representative organizations to better understand their experience, the impact that alpha-1 lung disease has on lives, and to identify where we can make a meaningful difference from the earliest phases of our development program for MPH-966 in alpha-1 lung disease. In September 2018, we participated in the U.K.'s alpha-1 Support Group annual Information Day, spending time with alpha-1 patient representatives, families and treating physicians to better understand the challenges in effective diagnosis, treatment and care for alpha-1. It was also an opportunity to share our development program and receive feedback from the community about what would be important. In December 2018, the Head of alpha-1 Awareness visited Mereo's offices in London in order to share his personal experience of alpha-1 Antitrypsin Deficiency and the work his organization is doing to improve awareness of alpha-1, its impact and the needs of the community.

DISCOVER MORE AT MEREOBIOPHARMA.COM

RISK FACTORS

Identifying, managing

and mitigating our key risks

Risk factors

We are a biopharmaceutical company engaged in the development and commercialization of innovative therapeutics that aim to improve the outcomes for patients with rare diseases. As such, and in common with other such companies, we face significant risks and uncertainties relevant to our operations. The Board has adopted a strategy designed to identify, quantify, manage and mitigate the risks we face, whilst recognizing that no risk management strategy can provide absolute assurance against loss and that drug development is inherently uncertain.

The Audit and Risk Committee reviews risks and receives presentations from risk owners at its regular meetings to oversee the management and mitigation of the principal risks faced by the Group and reports its findings to the Board. Members of the Executive Committee routinely attend meetings. The Board reviews risks at its regular Board meetings, including, but not limited to, an update on progress with our clinical trials and manufacturing, our patents, our financial results and projections, and our corporate development activities. Progress against objectives is measured by financial and non-financial key performance indicators (KPIs).

We set out below our key risk factors that have been identified through our risk management review process. Some of these risk factors are specific to us and others are more generally applicable to the biopharmaceutical industry in which we operate.

The Board believes that it has taken all reasonable steps to satisfy itself that the risk management process is effective and fit for purpose. Our control of risk is supported by an in-house quality team that has developed and implemented a fully Good Practice (GxP) compliant quality management system to mitigate risk. The Head of Quality reports to the General Counsel with appropriate escalation measures in place to review and control new and emerging risks within the business.

The direction of change during the year is illustrated by the arrow in the "Change" column. Please note that this refers to the overall change in the risk to the Group, following mitigating actions.

RISK	DESCRIPTION	MITIGATION AND DEVELOPMENTS TO DATE	CHANGE
Integration of OncoMed	We recently completed the merger with the formerly U.S. quoted company OncoMed. Mergers inherently have risks including misjudging key elements of an acquisition or failing to integrate OncoMed in an efficient and timely manner which would disrupt operations. We also note specific key risks relating to the acquisition of OncoMed:		N
	• Managing the acquired ongoing clinical development programs in OncoMed through to conclusion of the studies	OncoMed had already ended recruitment into the two Phase 1 programs currently active prior to completion of the merger. In addition, there has been no change to the nature of the outsourced support for these studies including the Clinical Research Organizations (CROs) engaged by OncoMed.	
	• Managing the people and corporate processes after completion of the transaction	We have conducted a thorough assessment of the integration requirements and have an integration plan, regular communication on progress and a management team that is co-ordinating the requirements to fully integrate OncoMed into the Group. From the completion of the merger we have taken steps to align and integrate OncoMed's quality process and policies and procedures with the Group.	

CHANGE KEY

- Increase
- No change
- Decrease
- New risk

RISK	DESCRIPTION	MITIGATION AND DEVELOPMENTS TO DATE	CHANGE
Further successful development of product candidates	Our development activities are focused on the progression of our rare disease product candidates, BPS-804 and MPH-966, and the completion of Phase 2 development activities and ongoing regulatory activities for our non-rare disease products that have already reported top-line data (BCT-197 and BGS-649). Our ability to successfully further develop our product candidates could be influenced by a number of factors, including the ability to demonstrate satisfactory safety and efficacy in clinical trials; delays in completing clinical trials which may cause us to incur additional costs; delays or difficulties in the enrollment of patients into clinical trials; unforeseen adverse events in connection with clinical trials; reliance on the completeness and accuracy of data packages provided by the product originator; reliance on third-party contract research organizations (CROs) for the conduct of clinical trials; and reliance on contract manufacturing organizations (CMOs) for the manufacturing of product candidates in sufficient quantity and to the requisite quality and in compliance with good manufacturing practice (GMP).	Our highly experienced in-house team manages the control over our external vendors and partners that assist us as sponsor in managing our clinical trials under GxP. In addition to quality audits of our CROs and clinical trial sites, we also undertake specialized data analytics which are designed to validate the quality of data generated from our clinical trials. During the year ended December 31, 2018 we announced positive results from a Phase 2 extension study for BGS-649. We are continuing the adult Phase 2b study for BPS-804 which has completed enrollment and we commenced a Phase 2 study for MPH-966 during the year. Earlier in 2019 we held a successful Type B end of Phase 2 meeting with the FDA for BCT-197.	→
Manufacturing	The Group does not have its own manufacturing infrastructure but relies on third-party CMOs to produce its product candidates. Mereo's ability to commence or continue its development activities could be impacted by a failure of the CMOs to meet the required output in terms of quality, scheduling scale-up, reproducibility, yield, purity, cost, potency or quality or the failure to adhere to regulatory requirements. In addition, BPS-804, OMP-305B83 and OMP-313M32 are large molecule monoclonal antibodies which have a more complex manufacturing process than our other products which are all small molecules.	The Group has an experienced in-house team that is working with a number of specialist manufacturers in respect of its drug manufacturing capabilities. We have a comprehensive in-house quality management process that covers the selection, monitoring and audit inspection of our CMOs and other associated vendors. During 2018 we successfully completed the transfer of drug product manufacture for BPS-804 to a new CMO and continued our scale-up development work with our existing CMO for drug substance. We also successfully completed drug substance manufacture for BCT-197 with our CMO. We inherited significant Active Pharmaceutical Ingredients (API) with the acquisition of MPH-966 for the ongoing Phase 2 study and have commenced further CMC activities with our CMO partner for this product.	→
Successful commercialization	Mereo does not currently have any approved products. Its future success is dependent on obtaining a commercial return from its current product candidates, either by entering into arrangements with third parties for commercialization or commercializing certain product candidates itself. Mereo's ability to obtain a commercial return on product candidates could be influenced by a number of factors, including the ability to establish sales and marketing capabilities; the ability to enter into product divestment or licensing agreements with third parties; competition that may lead to third parties developing or commercializing products earlier or more successfully than Mereo; the ability to achieve commercially reasonable rates for product reimbursement for product candidates commercialized by Mereo; and physician and patient acceptance of product candidates approved for commercial sale.	We continue to consider longer-term plans for building a commercial business focused on our rare disease products and in 2018 we hired a Head of Patient Access and Commercial Planning with responsibility for leading and optimizing the Company's patient access and commercialization strategies. The Company also completed a partnership deal with the Alpha-1 Foundation which included an investment into our ongoing Phase 2 study for MPH-966 (see Note 21). For BPS-804, we continue to benefit from advice received from regulators, payers and other health technology assessment (HTA) bodies as part of the EMA's Priority Medicines Review (PRIME) pathway and from payers through the Mechanism of Coordinated Access to Orphan Medicinal Products (MoCA). We commenced partnering discussions in 2018 for BCT-197 and these discussions are ongoing.	→

RISK FACTORS *CONTINUED*

CHANGE KEY

- Increase
- No change
- Decrease
- N New risk

RISK	DESCRIPTION	MITIGATION AND DEVELOPMENTS TO DATE	CHANGE
Failure to obtain regulatory approvals	Mereo operates in a highly regulated industry, giving rise to a number of risks that could affect the development and commercialization of its product candidates, including the ability to obtain required regulatory marketing approvals; the ability to maintain orphan drug status for its product candidate BPS-804; and the impact of changes to current legislation and potential future legislation as they relate to regulatory matters.	To supplement our experienced in-house team, we work with several specialized regulatory advisors to advise on regulatory strategy for each of our products. During 2018 our pediatric investigation plan (PIP) for BPS-804 was approved by the European Medicines Agency (EMA). We continue to plan to commence a pediatric Phase 2b/3 study in Europe and Canada later in 2019, subject to funding. During the year ended December 31, 2018 we received approval to conduct our Phase 2 study for MPH-966 in the E.U. and U.S. For BCT-197, earlier in 2019 we held a successful End of Phase 2 meeting with the FDA, gaining clarity on the Phase 3 program.	↓
Continued compliance with new laws and regulations	We face an ever-increasing burden of corporate regulation as a publicly traded company based in the U.S. and U.K. Britain's proposed withdrawal from the European Union may create significant uncertainty about the applicability of laws and regulations relating to the Group's business. This has the potential to impact our business as we are engaged with drug development in Europe, where we are currently subject to regulation by the EMA.	In 2018 we established a wholly owned Irish subsidiary that now holds our E.U. orphan drug designation and acts as our E.U. representative for all ongoing E.U. clinical studies. We implemented new procedures and policies in respect of the introduction of GDPR in May 2018. We introduced new policies and procedures prior to listing our ADRs on the Nasdaq Global Market.	N
Cybersecurity risks including loss of data	In addition, the threat to data privacy and cybersecurity continues to increase and become more complex for all companies and we are no exception.	In early 2018 we appointed a new Head of IT, who has undertaken an upgrade to our IT and cybersecurity processes and protocols. We also regularly test our IT control environment and undertake additional employee training where required based on the outcome of this testing.	→
Continued maintenance of strong intellectual property (IP) portfolio	Our ability to successfully license, divest or commercialize our product candidates depends in large part on our ability to obtain and maintain effective patent protection for our products in the U.S., Europe and other territories. If we are unable to obtain or maintain patent protection for our product candidates, or if the scope of the patent protection is not sufficiently broad, competitors could develop and commercialize similar products which would materially affect our potential commercial return from our products. We are subject to additional risks, including infringement of patent rights and inability to protect the confidentiality of our know-how, which could have an adverse effect on the competitive advantage of our product candidates.	We have had a dedicated Head of IP since 2015 and, in addition, we utilize expert external counsel in the prosecution and maintenance of our IP portfolio. Our key BPS-804 patents include claims directed to the BPS-804 antibody as well as the antibody's use as a medicament. Patents in this family will expire in 2028. Further patent applications have been filed relating to the use of anti-sclerostin antibodies in the treatment of OI which, if granted, will expire in 2037. The BPS-804 antibody also has orphan drug status in both the U.S. and the E.U. Two families of MPH-966 patents have been licensed under our agreement with AstraZeneca. The first family includes claims to the MPH-966 compound and its uses and these patents will expire in 2024. The second family includes claims to the specific tosylate salt form of the compound and these patents will expire in 2030. Further patent applications have recently been filed relating to dosage regimens of MPH-966 which, if granted, will expire in 2039.	→

RISK	DESCRIPTION	MITIGATION AND DEVELOPMENTS TO DATE	CHANGE
Continued maintenance of strong intellectual property (IP) portfolio ***continued***		The BGS-649 patent portfolio includes claims directed to BGS-649 formulations and to the use of BGS-649 in treating hypogonadism according to a specific dosing regimen, with expiry dates in 2032. The first patent family of our BCT-197 patent portfolio relates to the BCT-197 compound and other five-membered heterocycle-based p38 kinase inhibitors and these patents will expire in 2024. The second patent family relates to the use of pyrazole derivatives in the treatment of AECOPD and these patents will expire in 2033. Further patent applications have been filed relating to dosage regimens of BCT-197, the use of BCT-197 in the treatment of specific patient subpopulations, methods of producing specific polymorphs of BCT-197 and synthetic methods of production of BCT-197 with expected expiry dates not earlier than between 2036 and 2039. In relation to OncoMed's patent portfolio we have a comprehensive IP strategy across all the products to protect, defend and expand the patent protection.	
Availability of finance	We have incurred losses since our inception and do not yet have any approved or revenue-generating products. We expect to incur losses for the foreseeable future, and there is no certainty that we will ever generate a profit. We may not be able to raise additional funds that will be needed to support development or commercialization of our product candidates, and any additional funds that are raised could cause dilution to existing investors. Our financial situation could be adversely impacted by any future changes in U.K. taxation legislation, including the R&D tax credit regime. Mereo has significant expenditures in U.S. Dollars and Euros; consequently, our financial results could be adversely impacted by foreign currency movements.	We ended 2018 with cash resources of £27.5 million. Since the year end we completed the merger with OncoMed which had cash at completion of $50.8 million which significantly increased our cash runway and also created natural hedging for our U.S.-denominated costs. We do recognize the need to secure longer-term funding to support our further development activities for our rare disease products and to plan for commercialization and expect this to come from a mix of equity and non-dilutive partnering funding going forward as set out in our Strategic Report. During 2018 we refinanced our debt, extending our interest-only period to April 30, 2019, which we further extended during April 2019, to December 31, 2019. We continue with active partnering discussions in respect of BCT-197 and have a number of opportunities to monetize our other products. The Board is confident that we have sufficient cash resources to fund the Group into mid 2020.	
Constraints in the growth of the Group	Our future success depends upon our ability to retain key employees, including the executive directors and executive officers, and to attract, retain and motivate qualified individuals. We anticipate expanding our operational capabilities, and there is a risk that we may encounter difficulties in managing this growth which could disrupt our business. Our growth plans are dependent upon our ability to identify further product candidates and to integrate such products into our business. Our operations may be adversely impacted if it is unable to comply with the terms of licensing or acquisition agreements and applicable laws and regulations, including data privacy.	We continue to attract highly experienced people and continued to expand our team. During 2018, we grew from 23 to 31 full-time employees in total. Earlier this month, we welcomed 11 new employees and several contractors into the Group with the completion of the merger with OncoMed. The OncoMed team is already being fully integrated into the Group and we welcome the additional operational capabilities they bring to the Group. As set out in our Remuneration Report, prior to the merger, we reviewed our incentive arrangements and implemented new long-term incentives in April 2019 that will allow us to incentivize employees across the Group.	

FINANCIAL REVIEW

Successful completion of the merger

Extends our cash runway into mid 2020

"Our reduced R&D spend in 2018 reflected our increasing focus on our Rare Disease products."

RICHARD JONES
CHIEF FINANCIAL OFFICER

The financial statements are presented on a consolidated Group basis prepared in accordance with IFRS as issued by the IASB and adopted in the E.U. for the year ended December 31, 2018. Comparative data is shown on the same basis for the year ended December 31, 2017.

Research and Development (R&D)

Our total research and development, or R&D, expenses reduced by £11.9 million, or 34.4%, from £34.6 million in 2017 to £22.7 million in 2018. This reduction was due to the focus in 2018 on our two rare disease product development programs and the completion of clinical trials for our two specialist pharma product candidates.

In 2018 we completed the two Phase 2 clinical studies for our two non-rare products, BCT-197 and BGS-649. We continued our Phase 2b adult study for BPS-804 and in late 2018 commenced our Phase 2 proof of concept study for MPH-966. Clinical trial costs, including payments made to CROs and other suppliers for the ongoing clinical development of BPS-804 and MPH-966 and for completing the clinical trials for BCT-197 and BGS-649, reduced from £22.8 million in 2017 to £14.9 million in 2018.

Our payments to CMOs for the provision of drug substance and drug product and associated manufacturing development to support our clinical trials and further development and scale-up activities associated with our BPS-804 monoclonal antibody manufacturing development reduced from £7.3 million in 2017 to £4.2 million in 2018, reflecting the higher cost in 2017 due to the manufacture of clinical trial supplies for our ongoing BPS-804 adults study.

The cost of our in-house R&D team reduced slightly from £3.3 million in 2017 to £2.6 million in 2018, before including share-based payments with total R&D team costs after these costs falling from £4.3 million to £2.9 million considering lower share-based payment charges in 2018.

General and administrative expenses (G&A)

G&A expenses increased by £1.8 million, or 16.8%, from £10.7 million in 2017 to £12.5 million in 2018.

Our total staff expenses reduced by £2.4 million after taking account of a reduction in share-based payment charges of £3.1 million and an increase in underlying staff costs of £0.7 million. Our total professional fees increased from £1.9 million in 2017 to £6.3 million in 2018. This increase was due to the impact of costs relating to the aborted Nasdaq IPO in early 2018, of which £1.0 million was held on the balance sheet as prepayments as at December 31, 2017 and released during 2018, together with the costs associated with the merger with OncoMed and fees in respect of the bank loan renegotiation.

Finance Income and charges

Total finance income was £0.3 million in 2018, down from £0.8 million in 2017, reflecting lower balances held on deposit during the year. Finance charges increased from £1.1 million in 2017 to £2.4 million in 2018 reflecting a full year of interest charges on the bank loan in the year.

Financial KPIs

The directors consider:

- our underlying cash burn, cash balances and future cash runway; and
- our committed and planned expenditure on research and development (R&D)

to be the Group's key financial KPIs at its current stage of development. These are detailed in the Financial Review on pages 22 and 23.

The directors consider that the most important non-financial KPIs are:

- progress with our R&D pipeline including our clinical studies and related manufacturing activities;
- the management and development of our patent portfolio;
- our progress towards integrating the operations of OncoMed, acquired in the recently completed merger; and
- business development including acquiring new products and partnering activities relating to our non-rare disease products.

These activities are discussed in the Chairman and CEO's Statement and our product overview.

Net Foreign Exchange Gain/(Loss)

The foreign exchange loss fell £1.3 million from £1.4 million in 2017 to £0.1 million in 2018. This represented the unrealized gain on translation of cash deposits held primarily in U.S. Dollars at year end, and the fall reflected a lower exchange rate various year to year and lower U.S. denominated cash balances held at the end of 2018.

Taxation

We recorded a tax credit of £5.3 million in 2018, reduced from £8.2 million in 2017. The tax credit represents the cash rebate from the U.K. tax authorities we qualified for in respect of eligible research and development activities during the years. Due to the reduction in qualifying R&D expenditure in 2018, the estimated 2018 tax credit receivable reduced by £2.9 million compared to 2017. The 2017 tax credit was received in August 2018. We expect to receive the 2018 tax credit of £5.3 million in 2019.

Loss per share

Basic and Diluted Loss per share for the year was 45 pence, down from 56 pence in 2017.

Liquidity and capital resources

As of December 31, 2018, we had cash and short-term deposits and short-term investments (together "cash resources") of £27.5 million compared to £52.5 million as at December 31, 2017.

On September 30, 2018, we entered into a revised loan agreement with Silicon Valley Bank and Kreos Capital V (UK) Limited, which enabled us to amend the term to increase the interest only period of the loan from September 30, 2018 to April 30, 2019. In connection with the revised loan agreement, we issued to the lenders 225,974 additional warrants to subscribe for our ordinary shares at an exercise price of £2.31 per ordinary share taking the total warrants issued to our lenders to 922,464.

On October 8, 2018 we entered into a funding agreement with the Alpha-1 Project ("TAP") which provided for funding of up to $0.4 million as a contribution towards the development of our product candidate MPH-966. On November 1, 2018 the first tranche of $0.1 million was received and as a result we issued 41,286 warrants to subscribe for our ordinary shares at an exercise price of £0.03 per share.

On April 23, 2019 the Group agreed an amendment to the terms of its bank loan with the lenders. The new terms extended the interest-only period to December 31, 2019 followed by a 15-month capital and interest repayment period.

Merger with OncoMed Pharmaceuticals, Inc.

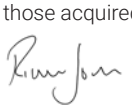
On April 23, 2019 we completed the merger with OncoMed, a California-based and Nasdaq-listed company, at which time OncoMed became a U.S. subsidiary of Mereo. At completion, we acquired cash and short-term deposits and short-term investments of $50.8 million. The estimated fair value of the intangible assets acquired was £14.5 million.

On April 23, 2019, in connection with the merger, 24,783,320 ordinary shares were issued and listed on AIM. On April 24, 2019, 4,956,664 American Depositary Receipts (ADRs) were listed on the NASDAQ Global Market. Following completion of the merger, former OncoMed shareholders own 25.8% of the enlarged share capital of the Group.

We acquired cash resources from OncoMed at completion of $50.8 million. Following completion of the merger, unaudited total Group cash resources were £53.9 million ($71.3 million).

Financial Outlook

The merger with OncoMed significantly extended our cash runway into mid 2020 and this will enable us to continue to invest in the development programs for our two rare disease product candidates BPS-804 and MPH-966. In addition, as set out in our Strategic Report we have a number of opportunities to monetize our other product candidates we have developed internally and those acquired from OncoMed through potential partnerships.



Richard Jones
Chief Financial Officer
April 28, 2019

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

EXECUTIVE DIRECTORS

DR. DENISE SCOTS-KNIGHT
CEO AND CO-FOUNDER

Denise has been Chief Executive Officer of the Company since July 2015 and a director of the Company since March 2015. Denise has over 25 years' experience in the biopharmaceutical industry both in R&D management and as a venture capitalist. She started her career in R&D management at Amersham and Fisons and as a senior executive at Scientific Generics before joining Rothschild Asset Management as an Investment Manager. She also currently serves on the board of Elanco Animal Health Inc., a U.S.-based veterinary pharma company. In 1999 she joined Nomura and became a Managing Director after heading the life science investment team investing globally in biotechnology companies. She led the Phase4 Partners MBO from Nomura in 2010. Denise has served on many U.S. and European private and public boards including Idenix (prior to its acquisition by Merck for $3.85 billion), Nabriva (NRBV) and Albireo (ALBO). Denise has a Ph.D. and a B.Sc. (Hons) from Birmingham University and was a Fulbright scholar at UC Berkeley.

RICHARD JONES
CFO

Richard joined the Company as Chief Financial Officer and an executive director on January 30, 2017. He also currently serves on the board of Alliance Pharma plc. Richard was previously at Shield Therapeutics plc, where he was Chief Financial Officer and Company Secretary. He was initially appointed as a non-executive director at Shield in 2010 before moving to CFO in 2011 where he had a leading role establishing the finance operations and guiding Shield through its private funding and IPO in 2016. Prior to this, Richard had a career in investment banking, holding senior positions at Investec and Brewin Dolphin Securities, where he advised healthcare clients on a wide range of transactions and fundraisings including IPOs, M&A and fundraisings. Richard qualified as a Chartered Accountant with PwC in 1991.

NON-EXECUTIVE DIRECTORS

DR. PETER FELLNER
CHAIRMAN

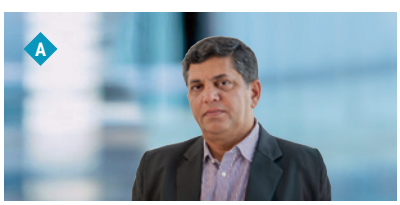
Peter has been Chairman of our Board of directors since July 2015. In addition to Mereo, Peter also serves as Chairman of the board of Consort Medical plc. He has previously served on the boards of a wide range of life science companies, including as Chairman of Ablynx NV from November 2013 and Vernalis plc, Vice Chairman of Astex Pharmaceuticals Inc. until its sale to Otsuka in 2013, Chairman of Optos plc from 2000 until its acquisition by Nikon Corporation in 2015, director of the global biopharmaceutical company UCB SA from 2005 to 2014 and Chairman of Acambis plc from 2006 until its acquisition by Sanofi in 2008. He was Chairman of Celltech Group plc until its acquisition by UCB in 2004, having been CEO from 1990. Before joining Celltech he was CEO of Roche U.K. from 1986 to 1990. He served as a member of the Medical Research Council from 2000 to 2007.

DR. ANDERS EKBLOM
NON-EXECUTIVE DIRECTOR

Anders has served on our Board of directors since July 2015. He has extensive experience as an executive and leader with broad business knowledge from senior roles in the biopharmaceutical industry, with global experience delivering products, projects, productivity and change management. He is currently Chairman of the board at Karolinska University Hospital and Chairman/non-executive board member of several biotech companies. During two decades at AstraZeneca, he was a member of global executive teams including Executive VP Global Drug Development, EVP Global Medicines Development, Global Head Clinical Development, Global Head Therapy Area, Global Head Science & Technology Integration, and CEO AstraZeneca AB Sweden. Anders is also a board-certified M.D. (anesthesiology and intensive care), Ph.D., D.D.S. and Associate Professor at Karolinska Institute, Stockholm, Sweden, and a fellow of the Royal Swedish Academy of Engineering Sciences.

PAUL BLACKBURN
NON-EXECUTIVE DIRECTOR

Paul has served on our Board of directors since October 2015. He has over 40 years of experience in the field of finance. He has previously held the positions of Senior Vice President Strategic Finance Projects and Financial Controller at GSK, gaining extensive emerging markets, corporate finance and change experience. He also served on the GSK audit and risk committee. He is currently a board member of Syngene International and is also chairman of Syngene's audit and risk committee and a member of its stakeholder relationships committee. He holds a B.Sc. in Management Sciences from Warwick University and also a professional accounting qualification from the Chartered Institute of Management Accountants.



KUNAL KASHYAP
NON-EXECUTIVE DIRECTOR

Kunal has served on our Board of directors since July 2015. He is a Chartered Accountant and is currently Chairman and Managing Director of Allegro Capital Advisors, a leading Indian investment bank. Kunal has a deep understanding of the life sciences industry, built over two decades of advising companies in the industry on fundraising, IPOs, mergers and acquisitions, and IP licensing. He is an independent director of GlaxoSmithKline Consumer Healthcare Ltd and Phase4 Partners. He was also founder and executive director of Celstream Technologies, a leading software product engineering organization. From 1994–2000 he was a global partner at Arthur Andersen responsible for building and developing the firm's practice in Southern India.

PETER BAINS
NON-EXECUTIVE DIRECTOR
Peter has served on our Board of directors since July 2015. He has nearly three decades of experience in the pharmaceutical industry encompassing strategic and operational leadership expertise across global geographies, functions and business segments. He was Representative Executive Officer and Chief Executive Officer of Sosei Group Corporation, a Tokyo-listed biotech company until December 2018. Previously, he was Chief Executive Officer of Syngene International, which he successfully took public on the Mumbai Stock Exchange in 2015. He also currently serves as non-executive director for Phase4 Partners and MiNA, and is also non-executive Chairman of Fermenta Biotech, a subsidiary of DIL, a Mumbai-listed company. Previously, he had a 23-year career at GlaxoSmithKline, where he held multiple senior roles. Peter received a B.Sc. Combined (Honours) in Physiology/Zoology from Sheffield University.

DR. DEEPA PAKIANATHAN
NON-EXECUTIVE DIRECTOR
Deepa has served on our Board of directors following completion of the merger with OncoMed and served as a director of OncoMed from December 2008 until the closing of the merger with Mereo. Since 2001, Deepa has been a Managing Member at Delphi Ventures, a venture capital firm focused on biotechnology and medical device investments. Deepa serves on the boards of directors of Alder Biopharmaceuticals, Inc., Karyopharm Therapeutics, Inc., and Calithera Biosciences, Inc. Deepa previously served on the boards of directors of Alexza Pharmaceuticals, Inc., PTC Therapeutics, Inc. and Relypsa, Inc. Deepa received a B.Sc. from the University of Bombay, India, an M.Sc. from The Cancer Research Institute at the University of Bombay, India, and an M.S. and Ph.D. from Wake Forest University.

MICHAEL WYZGA
NON-EXECUTIVE DIRECTOR
Michael has served on our Board of directors following completion of the merger with OncoMed and served as a director of OncoMed from October 2013 until the closing of the merger with Mereo. Michael is currently the President of MSW Consulting Inc., a strategic consulting group focused in the life sciences area. From December 2011 until November 2013, Michael served as President and Chief Executive Officer and a member of the board of directors of Radius Health, Inc. Prior to that, Michael served in various senior management positions at Genzyme Corporation, including as Chief Financial Officer from July 1999 until November 2011. Michael is a member of the boards of directors of Exact Sciences Corporation and LogicBio and is Chairman of the board of directors of GenSight Biologics S.A. and X4 Biologics. Michael previously served as a member of the boards of directors of Idenix Pharmaceuticals, Inc. and Altus Pharmaceuticals, Inc., and as a member of the supervisory board of Prosensa Holding B.V. He received an M.B.A. from Providence College and a B.S. from Suffolk University.

COMMITTEE COMPOSITION(1)

- A Audit and Risk Committee
- R Remuneration Committee
- N Nomination Committee
- \+ Research and Development Committee
- Chairman of Committee

Board composition

- **7** Non-executive directors
- **2** Executive directors

(1) With effect from May 1, 2019.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS
CONTINUED

EXECUTIVE OFFICERS

DR. ALASTAIR MACKINNON
CHIEF MEDICAL OFFICER, CO-FOUNDER
Alastair is our Chief Medical Officer and a co-founder of Mereo. Prior to Mereo, he was a Partner at Phase4 Partners, a global life science venture capital firm. He was also involved in Phase4's MBO in 2010 having originally joined Nomura in 2005. Before Nomura, he was a practicing physician in the U.K. for ten years. Alastair received a B.Sc. and M.B.B.S. from King's College London, is a Member of the Royal College of Surgeons of Edinburgh (MRCS) and has a Diploma in Corporate Finance from the London Business School. Alastair is a board member of Phase4 Partners.

CHARLES SERMON
GENERAL COUNSEL, COMPANY SECRETARY, CO-FOUNDER
Charles is our General Counsel and Company Secretary and a co-founder of Mereo. He has over 20 years' experience in corporate law and biopharmaceuticals. He started his career as a corporate lawyer at Freshfields before joining Nomura as an associate director in 1998, where he worked for Nomura's life science investment team investing globally in biotechnology companies. Charles is a board member of Phase4 Partners and was involved in its MBO from Nomura in 2010. Charles has an LLB (Hons) from Hull University.

JOHN RICHARD
HEAD OF CORPORATE DEVELOPMENT, CO-FOUNDER
John is our Head of Corporate Development and a co-founder of Mereo. Prior to Mereo, he worked with the co-founders at Nomura then Phase4 Partners. He has significant corporate, operational and transactional experience, having served in various executive, director and advisory roles throughout his career. He is a board member of Vaxart, Inc., Phase4 Partners, QUE Oncology and Catalyst Biosciences. Previously, he was Executive VP Business Development at SEQUUS, where he was responsible for negotiating SEQUUS's acquisition by ALZA. John also headed business development for VIVUS and Genome Therapeutics, where he established numerous alliances. John holds an M.B.A. from Harvard Business School and a B.S. from Stanford University.

WILLS HUGHES-WILSON
HEAD OF PATIENT ACCESS AND COMMERCIAL PLANNING
Wills is our Head of Patient Access and Commercial Planning. Prior to Mereo, she served as Chief Patient Access Officer at Swedish Orphan Biovitrum (Sobi), where she had executive accountability for the company's go-to-market commercialization approach, leading the pricing, reimbursement and access teams. Prior to joining Sobi, Wills was Vice President Health and Market Access Policy at Genzyme Corporation, now part of Sanofi, securing in-market availability for the company's orphan drug, rare disease and advanced therapies product portfolio. She has served as Industry Co-ordinator on the E.U. Commission's Committee of Experts on Rare Diseases and Industry Lead on the EMA's Committee for Orphan Medicinal Products (COMP) Working Group with Interested Parties. Wills holds a B.A. in Law and Politics from the University of Durham, U.K.

Working
together to inspire, innovate and improve lives

OUR VALUES AND OUR PEOPLE

We have continued to grow the employee base in strategic areas including in corporate development and patient access and commercial planning as we move our rare disease programs forward and seek to partner our specialty products. We have been very fortunate to attract and retain highly experienced individuals in clinical development, clinical operations, manufacturing, intellectual property and quality assurance and support them with strong leadership at the executive and Board level. This internal expertise is leveraged with external organizations including contract research organizations (CROs) and contract manufacturers (CMOs) and bespoke consulting arrangements. This combination has allowed the Group to initiate international large Phase 2 studies within 12 months of acquiring products from large pharma whilst maintaining a lean internal infrastructure. The successful progress to-date is a result of the teamwork, enthusiasm, experience, hard work and skills of all our employees who are dedicated to delivering innovative medicines to patients. We now have more than 30 employees at our London base and we welcome our new employees from OncoMed who will join Mereo at our new base in Redwood City in the U.S. Our Board members have significant operational experience in leadership positions in large and small pharmaceutical companies. They provide valuable strategic input into our development programs and our corporate and financing strategies. We welcome the two board members from OncoMed who have joined our Board and bring additional skills and diversity to the Mereo Board.

Strengthening our Board

As we move forward as a dual-listed company

"With the closing of the OncoMed merger we welcome our two new directors from the US who bring additional expertise, experience and diversity to the Board and we look forward to their contributions."

DR. PETER FELLNER
CHAIRMAN

Chairman's governance overview

I am pleased to present the Corporate Governance Report for the year ended December 31, 2018.

The role of Chairman is to ensure that the Board of Mereo operates effectively in delivering the long-term success of the Company. In fulfilling this role, the Chairman seeks to ensure that the Board proceedings are conducted in such a way to as to allow all directors to have the opportunity to express their views openly and, in particular, the Non-Executive Directors (NEDs) are able to provide constructive support and challenge to the Company's executive leadership team.

Good corporate governance is a central element of the successful growth and development of the Company. The Board and its Committees play a key role in the Company's governance by seeking to ensure that an effective system of internal controls and risk management procedures is in place.

This section of the annual report describes our corporate governance structures and processes and how they have been applied throughout the year ended December 31, 2018 and up to the date of this report in 2019.

The Board also takes into consideration how the Group's growth may result in the evolution of the corporate governance framework. Prior to the recent merger with OncoMed many of the Company's corporate governance policies and procedures as well as the terms of reference for the Board Committees were updated to meet the requirements of the Nasdaq Global Market.

The Board recognizes that a healthy corporate culture is important to Mereo's business purpose and strategy. The Executive officers of Mereo have a key role in establishing the key elements of our culture and the behaviors we expect to see. They provide feedback to the Board on this on a regular basis. Executive officers of Mereo hold monthly meetings with the Company employees at which they highlight our values and approach to business integrity. In addition we work with business management consultants at a company and Executive team level to assess the state of our culture and to agree and embed any modifications.

The Quoted Companies Alliance Code

The Board complies with and reports against the standards of corporate governance prescribed by the Corporate Governance Code for Small and Mid-Sized Companies from the Quoted Companies Alliance (the "QCA Code"). The Board believes that this corporate governance framework is appropriate for the Company, having regard to its size and nature. The Board periodically reviews the QCA Code and updates the framework if necessary, with the last review undertaken in September 2018.

A general overview of how the Company complies with the Principles of the QCA Code can be found on our website at www.mereobiopharma.com/investors-page/corporate-governance. Alongside this, whilst we are not required to apply it, we monitor developments in the U.K. Corporate Governance Code, applicable to listed companies traded on the main market of the London Stock Exchange, to keep abreast of matters which we feel should also be considered as best practice for an AIM-listed company such as Mereo.

The Nasdaq Global Market and U.S. securities laws

Following completion of the merger with OncoMed and the listing of American Depositary Receipts (ADRs), each representing five Mereo ordinary shares, on the Nasdaq Global Market we are required to comply with certain U.S. securities laws and Nasdaq rules that are relevant to us an "emerging growth company" (as defined under US securities laws) and as a non-U.S. company with foreign private issuer status (as defined under US securities laws). As an emerging growth company, we are subject to reduced public company disclosure requirements and as a non-U.S. company with foreign private issuer status we are exempted from certain corporate governance provisions of U.S. securities laws and Nasdaq rules that are generally applicable to U.S. domestic public companies.

CORPORATE GOVERNANCE REPORT
CONTINUED

I am pleased to include the following stand-alone Committee reports:

AUDIT AND RISK REPORT SEE PAGE 32

REMUNERATION REPORT SEE PAGES 33 to 36

The Board and Board changes

As at the date of this report the Board comprises the Chairman, two Executive Directors and six NEDs including two new NEDs, Michael Wyzga and Dr Deepa Pakianathan, who both joined the Board following the completion of the merger with OncoMed Pharmaceuticals Inc. ("OncoMed"). Both were serving board members of OncoMed and bring broad and deep industry experience to the Board. The Board considers there to be sufficient independence on the Board and that all the NEDs are of sufficient competence and caliber to add strength and objectivity to the Board. The Board also reflects a good balance of skills, diversity and experience from financial, operational and sector specific backgrounds as described in the Directors' biographies on pages 24 and 25.

The Board has considered and concluded that the appointment of a Senior Independent Director is not necessary at this time.

Our NEDs currently either have no share options or a limited number of share options issued to them from the pre-IPO Share Plan (the "2015 Plan"). These options had a vesting period of three years. However, considering the limited number of current options, the Board does not consider that these share options impact the independence of the NEDs. As set out on page 33 the Board has adopted new incentive arrangements in April 2019 which will include the ability to grant share options to NEDs. Peter Fellner, Peter Bains, Paul Blackburn, Kunal Kashyap, Anders Ekblom, Michael Wyzga and Deepa Pakianathan qualify as "independent" under U.S. securities laws and Nasdaq rules.

Name	Date of appointment
Non-executive directors	
Peter Fellner	July 29, 2015
Frank Armstrong[1]	July 29, 2015
Peter Bains	July 29, 2015
Paul Blackburn	October 6, 2015
Anders Ekblom	July 29, 2015
Kunal Kashyap	July 29, 2015
Michael Wyzga	April 23, 2019
Deepa Pakianathan	April 23, 2019
Executive directors	
Denise Scots-Knight, Chief Executive Officer	March 10, 2015
Richard Jones, Chief Financial Officer	January 30, 2017
Company Secretary	
Charles Sermon	May 19, 2015

(1) Frank Armstrong resigned from the Board on February 8, 2019 to focus on his other board and portfolio positions.

The Board typically has five scheduled meetings per year with additional Board meetings and Board Committee meetings as circumstances and business needs dictate. The Board is responsible to the shareholders for the proper management of the Group and meets regularly to set the overall direction and strategy of the Group and to review scientific, operational and financial performance. The Board has also convened on an ad-hoc basis between scheduled Board meetings to review specific business opportunities and other matters that require more immediate Board input. The key responsibilities of the Board are as follows:

- setting the Company's values and standards;
- approval of long-term objectives and strategy;
- approval of budgets and plans;
- oversight of operations ensuring adequate systems of internal controls and risk management are in place, maintenance of accounting and other records and compliance with statutory and regulatory obligations;
- review of performance considering strategy and budgets, ensuring any necessary corrective actions are taken;
- approval of the annual report and financial statements and major projects such as new product acquisitions;
- changes to the structure, size and composition of the Board;
- determining the remuneration policy for the directors and approval of the remuneration of the NEDs; and
- approval of communications with shareholders and the market.

There is a clear separation of the roles of the Chief Executive Officer (or CEO) and the non-executive Chairman. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision making and ensuring the NEDs are properly briefed on matters. The Chief Executive Officer has the responsibility for implementing the strategy of the Board and managing the day-to-day business activities of the Group.

In accordance with the Company's articles of association each of its Directors serves for a term of three years. Retiring directors are eligible for re-election at the Company's annual general meeting and, if no other director is elected to fill his or her position, and the director is willing, shall be re-elected by default. The current term for all of Mereo's Directors expires in 2021 except for Richard Jones whose current term expires in 2020 and Michael Wyzga and Deepa Pakianathan who shall retire but be eligible for re-election at the Company's next AGM.

Directors are required to notify the Board of any conflicts of interest and a register of such interests is maintained by the Company Secretary and reviewed at Board meetings. Any planned changes to their interests, including directorships outside the Mereo Group are notified to the Board.

Development, information and support

Updates are given to the Board on developments in governance and regulations as appropriate, including presentations from the Company's Nomad and financial, legal and remuneration advisors. The Board has access to the advice of the Company Secretary, who is a qualified lawyer and acts as secretary to the Board and its committees and is responsible for ensuring that Board procedures are followed, and applicable rules and regulations are complied with.

Performance evaluation

The Board recognizes the need to regularly review the effectiveness of its performance as well as that of its committees and individual directors. The Nominations Committee is responsible for performance evaluation of the Board including that of its Committees and individual directors, including the Chairman. The Nomination Committee has initiated a performance effectiveness process which has yet to be completed. The Nomination Committee recognizes the need for membership of the Board to be periodically refreshed and on April 4, 2019 approved the appointment of Michael Wyzga and Deepa Pakianathan as additional non-executive directors of the Company on completion of the merger with OncoMed.

Attendance at Board and Committee meetings

There were 15 Board meetings during 2018, of which five were scheduled in-person meetings. Directors' attendance at Board and Committee meetings was as follows:

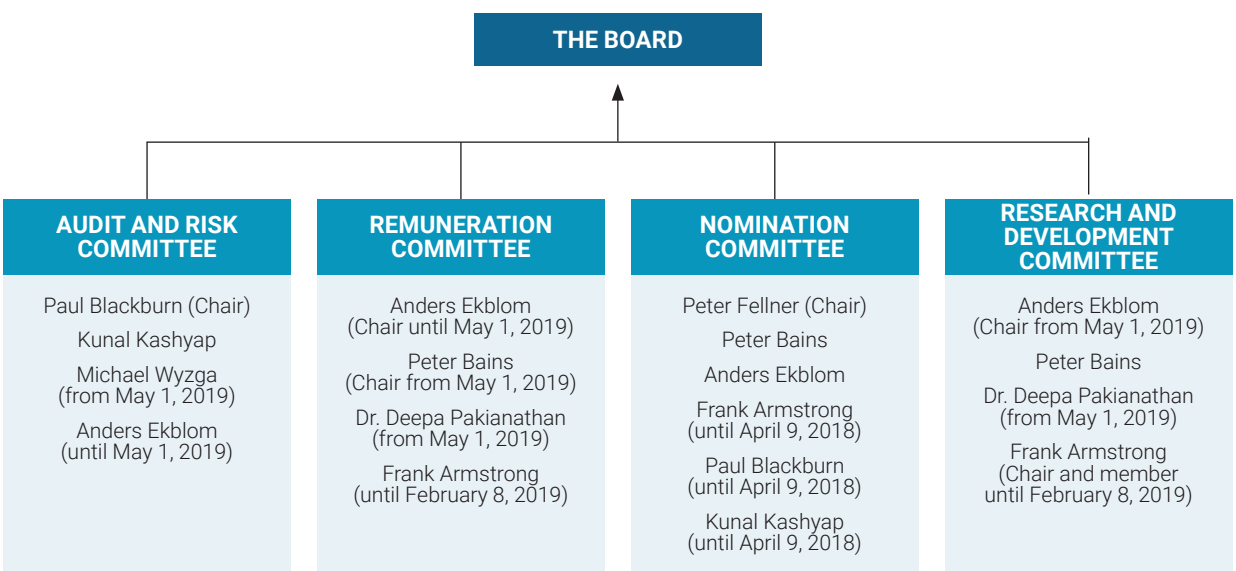
	Board (out of 15)	Remuneration Committee (out of 2)	Audit and Risk Committee (out of 7)	R&D Committee (out of 4)
Current directors				
Peter Fellner	14	n/a	n/a	n/a
Peter Bains	14	2	n/a	3
Paul Blackburn	15	n/a	7	n/a
Anders Ekblom	14	2	7	3
Kunal Kashyap	12	n/a	6	n/a
Michael Wyzga	n/a	n/a	n/a	n/a
Deepa Pakianathan	n/a	n/a	n/a	n/a
Denise Scots-Knight	15	n/a	n/a	n/a
Richard Jones	15	n/a	n/a	n/a
Past directors				
Frank Armstrong[1]	14	2	n/a	4

(1) Frank Armstrong resigned from the Board and the Research and Development Committee on February 8, 2019.

Board members' time commitment is considered necessary for the performance of their duties and Board members are expected to attend all Board and relevant Committee meetings, unless other previous commitments have been arranged.

Board Committees

To effectively manage governance of the Group, the Board has delegated certain responsibilities to sub-committees, as detailed below. As noted above with the re-organization of the Board on completion of the merger with OncoMed, the composition of the sub-committees was reviewed. These and other changes were implemented as noted below.



The detailed charters for each of the committees can be found on the Group's website at www.mereobiopharma.com. All the Board committees are authorized to obtain, at the Company's expense, professional advice on any matter within their terms of reference and to have access to enough resources to carry out their duties.

CORPORATE GOVERNANCE REPORT
CONTINUED

Audit and Risk Committee

From May 1, 2019, the Audit and Risk Committee will consist of Paul Blackburn, Kunal Kashyap and Michael Wyzga. The committee assists the Board in reviewing our accounting policies, financial reporting processes, audits of our financial statements, internal control and risk frameworks, principal risks and mitigation plans. Mr. Blackburn serves as Chairman of the Committee. The Audit and Risk Committee consists exclusively of members of our Board who are financially literate.

The Audit and Risk Committee will normally meet at least four times a year at the appropriate times in the reporting and audit cycle. The Audit and Risk Committee's responsibilities include:

- recommending the appointment of the independent Auditor to the general meeting of shareholders;
- the appointment, compensation, retention and oversight of any accounting firm engaged to prepare or issue an audit report or perform other audit services;
- pre-approving the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services;
- evaluating the independent auditor's qualifications, performance and independence, and presenting its conclusions to the full Board on at least an annual basis;
- reviewing and discussing with the executive officers, the Board and the independent auditor our financial statements and our financial reporting process;
- reviewing our internal controls and risk management and reviewing the need for an internal audit function at least annually; and
- approving or ratifying any related person transaction (as defined in our related person transaction policy) in accordance with our related person transaction policy.

THE AUDIT AND RISK REPORT IS PRESENTED ON PAGE 32

Remuneration Committee

From May 1, 2019, Peter Bains will be appointed as Chairman of the Remuneration Committee and Dr. Deepa Pakianathan will be appointed to the committee. Anders Ekblom continues to serve on the committee and remains as Chairman until May 1, 2019. The Committee assists the Board in determining senior management compensation. The Remuneration Committee's responsibilities include:

- reviewing the corporate goals and objectives for each year and setting the framework for variable compensation for senior management with reference to the corporate goals;
- identifying, reviewing and proposing policies relevant to senior management compensation;
- evaluating each member of senior management's performance considering such policies and reporting to the Board;
- analyzing the possible outcomes of the variable compensation components and how they may affect the compensation of senior management;
- recommending any equity long-term incentive component of each member of senior management's compensation in line with any compensation policy and reviewing our senior management compensation and benefits policies generally; and
- reviewing and assessing risks arising from our compensation policies and practices.

THE REMUNERATION REPORT IS PRESENTED ON PAGES 33 to 36

Nomination Committee

The Nomination Committee, which currently consists of Peter Bains, Anders Ekblom and Peter Fellner, assists our Board in identifying individuals qualified to become members of our Board and senior management consistent with criteria established by our Board and in developing our corporate governance principles. Peter Fellner serves as Chairman of the nomination committee. The nomination committee's responsibilities include:

- drawing up selection criteria and appointment procedures for Board members;
- reviewing and evaluating the size and composition of our Board and making a proposal for a composition profile of the Board at least annually;
- recommending nominees for election to our Board and its corresponding Committees;
- assessing the functioning of individual members of the Board and senior management and reporting the results of such assessment to the Board; and
- developing and recommending to the Board rules governing the Board, reviewing and reassessing the adequacy of such rules governing the Board, and recommending any proposed changes to the Board.

Research and Development Committee

From May 1, 2019, Dr. Anders Ekblom will be appointed Chairman of the Research and Development Committee and Dr. Deepa Pakianathan will be appointed to the Committee, Peter Bains is also a member of the Committee. The Committee assists our senior management with oversight and guidance related to research and development matters.

The Research and Development Committee's responsibilities include oversight of:

- our strategic development plans for products, considering any regulatory feedback; and
- the acquisition of new products.

During 2018 the research and development committee reviewed and provided input into regulatory strategy for BPS-804 and MPH-966 and provided input on new product opportunities.

Corporate social responsibility

The Board recognizes the importance of social, environmental and ethical matters and it endeavours to consider the differing interests of the Group's stakeholders, including its investors, employees, suppliers and business partners, when operating its business.

Employment and diversity

The Company seeks to appoint employees with appropriate skills, knowledge and experience for the roles they undertake and thereafter to develop, incentivize and retain staff. The Board recognizes its legal responsibility to ensure the well-being, safety and welfare of the Company's employees and maintain a safe and healthy working environment for them and for our visitors. If an employee has a concern about unsafe conditions or tasks, they are encouraged to report their concerns immediately to their manager or the Company's General Counsel.

The Company is fully committed to the elimination of unlawful and unfair discrimination and values the differences that a diverse workforce brings to the organization. The Company endeavors to not discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes color, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. The Company will undertake an annual review of its policies and procedures to establish its position about compliance and best practice and monitor and promote a healthy corporate culture.

General Data Protection Regulation (GDPR)

Prior to the adoption of GDPR in 2018 we updated our data protection guidelines, training and processes.

Risk management and internal control

The Board is responsible for the systems of internal control and for reviewing their effectiveness. Details of the Board's review of the Company's risk management and internal control procedures are set out in the Audit and Risk Report on page 32. Details of our principal risks are set out on pages 18 to 21.

Financial reporting

The Board is responsible for reviewing and approving the Annual Report and Accounts and the interim financial information and for ensuring that these reports present a balanced assessment of the Group's position. Drafts of these reports are provided to the Board in a timely manner and Directors' feedback is discussed and incorporated, where appropriate, prior to publication.

In addition, the Board ensures that controls over the financial reporting process and preparation of the consolidated accounts include extensive reviews by qualified and experienced individuals to ensure that all elements of the financial statements and appropriate disclosures are considered and accurately stated.

Market Abuse Regulation

The Board has in place procedures to assist the Company in complying with its obligations relating to the disclosure and control of inside information under the Market Abuse Regulation and the AIM Rules. These procedures include identifying inside information, ensuring the appropriate disclosure of inside information, the maintenance of insider lists and that effective controls are in place to keep any inside information confidential.

Whistleblowing

The Group operates a whistleblowing policy which allows all employees to raise concerns to senior management in strict confidence about any unethical business practices, fraud, misconduct or wrongdoing. The Company has implemented a whistleblowing hotline through which employees can raise questions and concerns anonymously. Any concerns with the whistleblowing policy are reviewed by the Audit and Risk Committee.

Relations with stakeholders and shareholders

The Board recognizes the importance of communication with its shareholders to ensure that its strategy and performance are understood and that it remains accountable to shareholders and we therefore maintain a regular dialog with our institutional investors.

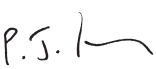
Executive officers of the Company also engage with stakeholders and receive feedback from a range of such stakeholders including the Company's employees which is then shared with the Board. The Board recognizes that the Company's employees are a valuable asset and a key driver of the Company's success. The Board and the Board's committees, including the R&D Committee, also receive regular feedback directly from key advisers and third party experts.

Our website, www.mereobiopharma.com, has a dedicated investor section, which is fully compliant with AIM Rule 26 and provides useful information for our shareholders including the latest announcements, press releases, published financial information, details of our products and our current development pipeline and other information about the Company. The Board as a whole is responsible for ensuring that a satisfactory dialog with shareholders takes place, while the Chief Executive Officer and I ensure that the views of the shareholders are communicated to the Board as a whole. The Board ensures that our strategic plans have been carefully reviewed in terms of their ability to deliver long-term shareholder value.

Annual General Meeting (AGM)

Shareholders are welcome to attend our AGM, where they have the opportunity to meet the Board. All shareholders will have at least 21 days' notice of the AGM, at which certain directors will be available to discuss aspects of the Group's performance and answer questions.

This year's annual general meeting of the Company will be held on June 19, 2019. The notice of annual general meeting, which includes all proposed resolutions, will be posted to shareholders in due course and will be available on the Group's website.



Dr. Peter Fellner
Chairman
April 28, 2019

AUDIT AND RISK REPORT

The Board has delegated certain responsibilities for oversight of the financial reporting process and for managing its external Auditor to the Audit and Risk Committee (ARC). Details of the ARC, its remit and activities are set out in the Corporate Governance Report on pages 27 to 31.

The ARC met seven times in 2018. A summary of the Committee's key activities during 2018 is as follows:

Review of Auditor and appointment of new tax advisors

The ARC monitors the relationship with the external Auditor, Ernst & Young LLP, which was appointed in 2015 and reappointed at the 2018 AGM, to ensure that Auditor independence and objectivity are maintained. We also reviewed and approved the 2018 audit fees. As part of its review we monitor the provision of non-audit services by the external Auditor. The breakdown of fees between audit and non-audit services for 2018 is provided in Note 6 to the financial statements. We also assess the Auditor's performance.

Having reviewed the Auditor's independence and performance, we recommended to the Board that Ernst & Young LLP be reappointed as the Company's Auditor at the next annual general meeting. We also engaged Ernst & Young LLP to carry out the 2016 and 2017 audit to Public Company Accounting Oversight Board (PCAOB) standards and the review of the proforma consolidated combined financial statements in respect of the registered public offering in the U.S. and the merger with OncoMed.

During the year we also reviewed our advisors for corporate tax and agreed the appointment of Deloitte LLP as our corporate tax advisors for our tax compliance and any ad-hoc taxation advice.

Financial statements

During the year we met with the executive team and with the Auditor to agree the scope of the 2018 audit plan. We also reviewed and approved the FY 2017 financial statements, the FY 2018 interim statements, the FY 2016 and FY 2017 financial statements audited under U.S. PCAOB standards and the proforma consolidated combined financial statements for FY 2017 and the proforma consolidated combined balance sheet as at June 30, 2018. As part of our review we considered and approved existing and new accounting policies and updated judgments and estimates in respect of FY 2017.

As part of our oversight of the preparation of the financial statements for FY 2018 we also reviewed and approved several technical accounting papers in respect of the approach to the preparation of the proforma consolidated combined financial statements and the adoption of new accounting standards for FY 2018.

Internal controls

The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. These procedures include the preparation of management accounts, forecast variance analysis and other ad-hoc reports. A Financial Procedures Manual sets out accounting procedures, policies and minimum reporting standards.

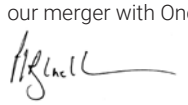
During 2018, we reviewed our internal controls and whether there was adequate oversight without an internal audit function. Given the current size of the Group and the control systems that are in place we concluded that there is currently sufficient management oversight to highlight any areas of weakness in the financial reporting systems.

Treasury management

During the year we reviewed the treasury management policy and procedures to ensure the oversight of cash balances and the translation of currencies were appropriate for the business needs. We have ensured that appropriate levels of foreign currency cash balances are held to meet business requirements and appropriate policies are in place in respect of the investment of cash balances surplus to immediate working capital requirements.

Risk management

During the year we agreed the principal risks in the business and reviewed a number of principal risk mitigation plans presented by individual risk owners. Principal risks identified are set out in the Strategic Report on pages 18 to 21. A more detailed review of business risks is set out in the F-4 registration statement published in connection with our registered public offering and our merger with OncoMed.



Paul Blackburn
Chairman of the Audit and Risk Committee
April 28, 2019

REMUNERATION REPORT

This report sets out the remuneration policy operated by the Group in respect of the executive and non-executive directors (NEDs) together with details of all remuneration, share options and shareholdings of its directors in respect of the year ended December 31, 2018.

The Remuneration Committee

The Board has delegated certain responsibilities for executive director remuneration to the Remuneration Committee. Details of the Remuneration Committee, its remit and activities are set out in the Corporate Governance Report on pages 27 to 31. The Remuneration Committee met twice in 2018.

Remuneration policy

The Group's remuneration strategy is to provide pay packages that will:

- reward delivery of value to shareholders and achievement of the Group's key strategic objectives;
- motivate and retain business-critical employees; and
- enable the Group to continue to attract high quality recruits.

The remuneration framework for executive directors is a combination of base salary, benefits, an annual bonus and awards under share plans as described below. A similar pay structure is operated for other key members of senior management. Prior to the recently completed merger with OncoMed, the Committee undertook a full review of remuneration arrangements, including share incentives, across the Group. The review included the adoption of two new share plans, the Mereo 2019 Equity Incentive Plan (the 2019 EIP) and the Mereo 2019 NED Equity Plan (the 2019 NED EIP). The EIPs will be used in respect of future grant policy and are considered more appropriate for the enlarged Group structure.

Element	Description	Vesting/performance conditions
Base salary	Base salaries are reviewed annually with effect from January 1 each year. The review process is managed by the Remuneration Committee with reference to market salary data and the individual's performance and contribution to the Group during the year. With effect from January 1, 2019 the base salary of Denise Scots-Knight, CEO, was increased by 3% to £390,988 and the base salary of Richard Jones, Chief Financial Officer (CFO), was increased by 12% to £291,200.	n/a
Bonuses	Annual bonuses for executive directors and executive officers are based on achievement of Group strategic, clinical development and financial targets. The annual bonus potential for the executive directors and executive officers is a maximum of 100% of salary. For the year ended December 31, 2018 bonuses were awarded at 80% of the maximum potential.	From January 1, 2018, under the new Deferred Bonus Plan (2019 DBSP) 100% of the annual bonus is paid in cash, of which 30% of amounts granted to executive officers (after deduction of income tax and the relevant employee's national insurance contributions) is required to be utilized by the executive to acquire Mereo shares in the open market within 12 months of the grant of the award. Under the previous DBSP, 70% of the annual bonus was paid in cash and 30% of the annual bonus was deferred into rights to acquire shares equal in value at the time cash bonuses were paid to the amount deferred free of charge (or awards). The DBSP awards under this prior plan vest three years after the date of issue and have no performance conditions.
Long Term Incentive Plan (LTIP)	In order to further incentivize the executive directors and senior management, and align their interests with shareholders, the Group operated an LTIP scheme, under which rights to acquire shares at nil cost were awarded. The shares to satisfy LTIP awards are delivered through an employee benefit trust (EBT), as detailed in Note 2 to the financial statements. There were no LTIP awards in 2018 and no further awards are planned.	The LTIP awards vest over a five-year period with 75% of the total award based upon the achievement of share price targets and 25% of the total award based upon the achievement of strategic targets.

REMUNERATION REPORT *CONTINUED*

Remuneration policy continued

Element	Description	Vesting/performance conditions
The Mereo 2015 Plan	Prior to admission to trading on AIM in June 2016, the Group operated a share option plan (the "2015 Plan").	Under the 2015 Plan share options for executives vest over a four-year period; share options for NEDs vest over a three-year period; and there are no performance conditions other than continued service with the Company.
The Mereo BioPharma Group plc Share Option Plan ("Share Option Plan")	At the time of admission to trading on AIM in June 2016, the Company established new plans including the Share Option Plan. Share options have been granted to certain employees on commencement of employment with the Group and thereafter under this plan.	Under the Share Option Plan share options vest over a three-year period and NEDs are not eligible to participate. There are no performance conditions under this scheme.
The Mereo 2019 Equity Incentive Plan **The Mereo 2019 NED Equity Incentive Plan**	As noted above, the Committee reviewed the share incentive arrangements and approved two new share plans on April 4, 2019, one for executive directors and other staff and one for NEDs (together the 2019 EIPs). Details of these plans are set out in Note 25 to the accounts on page 78.	Under the new plans, it is anticipated that market value options to executives and other employees will be granted with a four-year vesting period and no performance conditions. It is also anticipated that market options to NEDs will be granted with a one-year vesting period, other than for grants to new NEDs which will have a three-year vesting period. No grants have been made under the new plans as at the date of this report. It is anticipated that the first annual award will be made shortly.
Pension	The Group operates a defined contribution pension plan and has a policy of encouraging all employees to plan responsibly for their retirement. The policy also complies with the provisions of auto-enrollment. The Company makes payments of 10% of basic salary for executive directors and executive officers (15% for the Chief Executive Officer) into any pension scheme or similar arrangement as the participating executive may reasonably request (or a payment in lieu). Such payments are not counted for the purposes of determining bonuses.	n/a
Other benefits	Other benefits provided to all employees are life assurance, income protection, private medical insurance and subsidized gym membership.	n/a

Executive directors' service agreements and termination provisions

Details of the executive directors' service agreements are set out below.

Director	Date of initial contract	Notice period by Company	Notice period by director
Denise Scots-Knight, Chief Executive Officer	July 29, 2015	12 months	12 months
Richard Jones, Chief Financial Officer	January 28, 2017	6 months	6 months

There are no specific provisions under which executive directors are entitled to receive compensation upon early termination, other than in accordance with the notice period.

At the Company's sole discretion it may make a payment in lieu of notice equivalent to the basic salary which the individual would have been entitled to receive following notice of termination.

Non-executive directors

Non-executive directors' terms of appointment

Non-executive director	Date of initial contract	Notice period by Company	Notice period by director
Peter Bains	July 29, 2015	3 months	3 months
Paul Blackburn	October 6, 2015	3 months	3 months
Anders Ekblom	July 29, 2015	3 months	3 months
Peter Fellner	July 29, 2015	3 months	3 months
Kunal Kashyap	July 29, 2015	3 months	3 months
Deepa Pakianathan	April 23, 2019	3 months	3 months
Michael Wyzga	April 23, 2019	3 months	3 months

The Company's Articles provide that at every AGM if any director has at the start of the AGM been in office for more than three years since his or her last appointment or reappointment he or she shall retire and if a director has been appointed by the Mereo Board since the previous AGM he or she shall retire. In accordance with the Company's Articles Michael Wyzga and Deepa Pakianathan shall both retire but be eligible for reappointment at the Company's next AGM. All the remaining non-executive directors and Denise Scots-Knight were re-elected as directors at the Company's 2018 AGM except Richard Jones, who was re-elected at the Company's 2017 AGM. All the non-executive directors may be terminated by either party giving notice as shown above. There are no arrangements under which any non-executive director is entitled to receive compensation upon the early termination of his appointment. The remuneration payable to NEDs is decided by the Chairman and the executive directors.

Directors' remuneration for the year ended December 31, 2018*

Under the terms of their service agreements as varied by annual awards or letters of appointment, the remuneration and benefits of the directors serving during the year ended December 31, 2018 are set out below (see also Note 7 on page 57).

	Basic salary and fees £	Benefits in kind £	Pension contributions £	Bonus £	Total £	2017 Total £
Non-executive directors						
Frank Armstrong[1]	56,000	—	—	—	56,000	56,000
Peter Bains	44,000	—	—	—	44,000	44,000
Paul Blackburn	48,000	—	—	—	48,000	48,000
Anders Ekblom	48,000	—	—	—	48,000	48,000
Peter Fellner	100,000	—	—	—	100,000	100,000
Kunal Kashyap	40,000	—	—	—	40,000	40,000
Executive directors						
Denise Scots-Knight	379,600	7,620	56,940	303,680	747,840	671,921
Richard Jones	260,000	7,481	26,000	208,000	501,481	426,564

(1) Frank Armstrong resigned as a director on February 8, 2019.

* Subject to audit, see Note 7 on page 57.

REMUNERATION REPORT *CONTINUED*

Directors' share interests for the year ended December 31, 2018*

As at December 31, 2018 the directors serving during the year had the following interests in share plans:

	Date of grant[1]	At January 1, 2018	Awarded	Canceled	Lapsed	At December 31, 2018	Exercise price	Latest date of exercise
Denise Scots-Knight								
2015 Plan	25/9/15	1,544,745	—	—	—	**1,544,745**	£1.29	September 24, 2025
LTIP	9/6/16	461,538	—	—	—	**461,538**	£nil	June 9, 2022
DBSP	4/4/17	25,319	—	—	—	**25,319**	£nil	April 4, 2021
DBSP	31/1/18[1]	32,205	—	—	—	**32,205**	£nil	January 31, 2022
		2,063,807	—	—	—	**2,063,807**	—	—
Richard Jones								
Share Option Plan	4/4/17	650,000	—	—	—	**650,000**	£3.03	April 4, 2027
LTIP	4/4/17	185,950	—	—	—	**185,950**	£nil	January 30, 2023
DBSP	31/1/18[1]	22,058	—	—	—	**22,058**	£nil	January 31, 2022
		858,008	—	—	—	**858,008**	—	—
Frank Armstrong[2]	29/9/15	216,264	—	—	—	**216,264**	£1.29	September 28, 2025
Peter Bains	29/9/15	710,583	—	—	—	**710,583**	£1.29	September 28, 2025
Paul Blackburn	11/5/16	236,974	—	—	—	**236,974**	£1.84	May 10, 2026
Anders Ekblom	29/9/15	216,264	—	—	—	**216,264**	£1.29	September 28, 2025
Peter Fellner	29/9/15	1,692,673	—	—	—	**1,692,673**	£1.29	September 28, 2025
Kunal Kashyap	29/9/15	216,264	—	—	—	**216,264**	£1.29	September 28, 2025

(1) The awards under the DBSP in respect of the annual bonus for the year ended December 31, 2017 were made on January 31, 2018 and granted on April 26, 2018.

(2) Frank Armstrong resigned as a director on February 8, 2019.

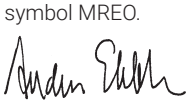
* Subject to audit; see Note 7 on page 57.

Directors' interests in the share capital of the Company as at the date of this report*

Director	Number of ordinary shares	Percentage of issued share capital
Denise Scots-Knight	844,199	0.88%
Peter Fellner	10,000	0.01%
Peter Bains	107,906	0.11%
Paul Blackburn	22,624	0.02%
NxtScience AB (on behalf of Anders Ekblom)	93,002	0.10%
Kunal Kashyap	1,497,735	1.56%
Deepa Pakianathan (as a General Partner of Delphi Ventures)	1,283,670	1.34%

* Includes shares held as ADRs.

The shares were admitted to trading on AIM of the London Stock Exchange under the ticker symbol MPH on June 9, 2016. On April 24, 2019 American depositary receipts (ADRs) were admitted to trading on the Nasdaq Global Market under the ticker symbol MREO.



Anders Ekblom
Chairman of the Remuneration Committee
April 28, 2019

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for Mereo BioPharma Group plc and its subsidiaries (the "Group") for its financial year ended December 31, 2018. Comparative data is presented for the year ended December 31, 2017.

Principal activities

The Strategic Report on pages 1 to 23 describes the Group's principal development activities and strategy.

We are a multi-asset biopharmaceutical company focused on the acquisition, development and commercialization of innovative therapeutics that aim to improve outcomes for patients with rare diseases. During 2018 we operated from a single site in the U.K.

Results and dividends

The Group recorded a comprehensive loss for the year attributable to equity holders of the Company of £32.0 million (2017: £38.8 million). Further details are given in the Financial Review and in the financial statements. The directors do not recommend payment of a dividend.

Research and development

In the year ended December 31, 2018, we spent £22.7 million (2017: £34.6 million) on development activity (R&D). This reduced spending compared to the prior year was due to the completion of the Phase 2 programs for our two specialty products, BCT-197 and BGS-649, during the year offset by the continuing spend on the adult Phase 2b study for BPS-804 and the start of a new Phase 2 study for MPH-966. Details of our development programs can be found in the Strategic Report.

Post-balance sheet events

In December 2018 we announced a proposed merger with OncoMed based in Redwood City, California. Following completion of the merger on April 23, 2019 we now have two offices. The principal and registered office is One Cavendish Place, London W1G 0QF. Following the merger, the Group operates a subsidiary office in Redwood City, California.

Financial performance

Details of the financial performance, including comments on the cash position and R&D expenditure, are given in the Financial Review.

Corporate governance

Details of the Company's corporate governance are included in the Corporate Governance Report on pages 27 to 31.

Principal risks and uncertainties

Details of our principal risks are set out on pages 18 to 21 of our Strategic Report. Our financial risk management is set out in our Audit and Risk Report on page 32.

Going concern

The directors have reviewed the current and projected financial position of the Group, considering existing cash, short-term deposits and short-term investments (or cash resources). Whilst the Group and the Company continue to make losses, the directors believe it is appropriate to prepare the financial information on a going concern basis. This is because our development activities continue to progress according to plan and our cash resources together with the cash resources acquired on completion of the merger with OncoMed will allow us to meet our liabilities as they fall due for at least 12 months from the date of authorization for issue of these consolidated financial statements.

Directors

The directors of the Company who held office during the year and up to the date of this report, unless otherwise noted, were:

Executive directors

Denise Scots-Knight – CEO

Richard Jones – CFO

Non-executive directors

Peter Fellner	
Peter Bains	
Paul Blackburn	
Anders Ekblom	
Kunal Kashyap	
Michael Wyzga	Appointed April 23, 2019
Deepa Pakianathan	Appointed April 23, 2019
Frank Armstrong	Resigned February 8, 2019

Brief biographical details of the current directors of the Company are given on pages 24 and 25.

As at the date of this report, the directors held shares representing 4.0% of the equity of the Company. Details of the directors' shareholdings and their options over shares in the Company are disclosed in the Remuneration Report on pages 33 to 36.

Disclosure of information to the Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group's Auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

DIRECTORS' REPORT *CONTINUED*

Directors' and officers' liability insurance

The Company has, as permitted by the Companies Act 2006, purchased and maintained throughout the financial year suitable insurance cover on behalf of the directors, indemnifying them against certain liabilities which may be incurred by them in relation to the Group. We have also entered into a deed of indemnity with each of our directors and executive officers.

Employees and hiring policy

As at December 31, 2018 the Group had 31 employees. We operate a non-discriminatory employment policy and fair consideration is given to applications for employment made by disabled applicants, having regard to their aptitudes and abilities, and the continued employment of staff who become disabled. We are committed to equal opportunities in all our employment practices and for involving and informing our employees of our goals and objectives which also form part of our annual performance incentives. We encourage, and provide support for, ongoing training and development.

We place considerable focus on being open with our staff and, in addition to other communication, we conduct regular all-Company meetings to share and discuss important corporate and strategic progress.

Health, safety and environment

The directors are committed to ensuring the highest standards of health and safety, both for their employees and for the communities within which the Group operates. The directors are also committed to minimizing the impact of the Group's operations on the environment.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the years ended December 31, 2018 and December 31, 2017.

Share capital

As at the date of this report, the Company had total issued and fully paid up share capital of £288,071 representing 96,023,592 ordinary shares of £0.003, all of which rank pari passu. All shares are admitted to trading on AIM of the London Stock Exchange and each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the transfer of shares beyond those standard provisions set out in the Articles of Association. No shareholder holds shares carrying special rights with regard to control of the Company.

ADSs

American depositary shares (ADSs) are traded on Nasdaq with effect from April 24, 2019 following completion of the merger with OncoMed, under the ticker symbol MREO. Each ADS represents five ordinary shares.

Substantial interests

At April 23, 2019, the following shareholders are recorded as having interests in the Company's ordinary shares of 3% and above:

	Number issued	Percentage of share capital
Woodford Investment Management Limited	29,843,946	31.1%
Invesco Asset Management	19,149,176	19.9%
Novartis Pharma AG	13,767,841	14.3%
Canaccord Genuity Wealth Mgt	2,870,000	3.0%
Directors	2,831,910	4.0%

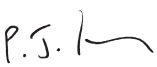
Website publication

The directors are responsible for ensuring that the annual report, including the financial statements, are made available on our website.

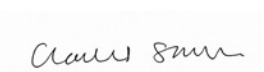
Annual general meeting

The 2019 annual general meeting (AGM) of the Company will be held on June 19, 2019. The notice of the meeting, together with an explanation of the business to be dealt with including proposed resolutions, will be prepared as a separate document and distributed to shareholders and posted to our website in due course.

On behalf of the Board



Peter Fellner
Chairman



Charles Sermon
General Counsel and Company Secretary
April 28, 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the AIM Rules of the London Stock Exchange we are required to prepare our Group financial statements in accordance with International Accounting Standards. For 2017 and 2018 we have chosen to prepare our Group and Company accounts according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as issued by the IASB or as adopted by the E.U.; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and the Group and enable them to ensure that its financial statements and Remuneration Report comply with the Companies Act 2006.

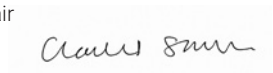
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware there is no relevant audit information of which the Group and parent company's Auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company's Auditor is aware of that information.

On behalf of the Board



Charles Sermon
Company Secretary
April 28, 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEREO BIOPHARMA GROUP PLC

Opinion

In our opinion:

- Mereo BioPharma Group plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mereo BioPharma Group plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2018	Balance sheet as at 31 December 2018
Consolidated statement of comprehensive loss for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related Notes 1 to 16 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (U.K.) (ISAs (U.K.)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the U.K., including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (U.K.) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorized for issue.

Overview of our audit approach

Key audit matters	» Risk of undetected impairment of intangible assets.
Audit scope	» We performed an audit of the complete financial information of the Group, covering 100% of Group operating costs and 100% of total assets.
Materiality	» Overall group materiality of £0.7 million, which represents 2% of operating costs.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of undetected impairment of intangible assets Refer to the Accounting policies (pages 48 to 55); and Note 12 of the Consolidated Financial Statements (pages 61 and 62) The Group has significant intangible assets arising from the acquisition of products in development. Recoverability of these assets is based on forecasting and discounting future cash flows, which are inherently highly judgmental. For products in development, the main judgment is achieving successful trial results and obtaining required clinical and regulatory approvals. The risk is that there may be errors in these judgments. The risk has decreased in the current year due to the progression of the development programs.	Our principal audit procedures included: » evaluating the Group's assumptions used in assessing the recoverability of intangible assets, in particular, revenue and cash flow projections, the probability of obtaining regulatory approval and the weighted average cost of capital; » performing sensitivity analyses over individual intangible asset models, to assess the level of sensitivity to key assumptions and focus our work in those areas; » assessing the reasonableness of the Group's assumptions regarding probability of obtaining regulatory approval through consideration of the current phase of development and comparison to industry practice; » interviewing key research and development personnel to corroborate the assumptions used; » evaluating the WACC, with the assistance of EY valuations specialists; » challenging management's key assumptions regarding the size of the therapeutic area market and the product's projected share of this market through comparison to external scientific literature and market research; » challenging internally generated evidence by reviewing analyst forecasts, and retrospective assessment of the accuracy of the Group's projections; and » assessing the adequacy of related disclosures in the Group's financial statements.	We have concluded that the assumptions made by management are reasonable with no impairment issues having been identified.

In the prior year, our auditor's report included a key audit matter in relation to the MPH-966 license acquisition and future financial commitments. In the current year, we have not included this as a key audit matter, given it was a one off transaction and no additional license acquisitions have occurred.

INDEPENDENT AUDITOR'S REPORT *CONTINUED*
TO THE MEMBERS OF MEREO BIOPHARMA GROUP PLC

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organization of the Group, changes in the business environment and other factors such as local statutory reporting requirements when assessing the level of work to be performed at each entity.

We performed audit procedures accounting for 100% (2017: 100%) of the Group's operating costs and 100% (2017: 100%) of the Group's total assets. All audit procedures were undertaken by the central U.K. audit team.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £0.7 million (2017: £1 million), which is 2% (2017: 2%) of operating costs. We believe that operating costs provides us with an appropriate basis upon which to set materiality, since the Group is in the development stage of its life cycle and is investing in research and development, with no operating income to date.

We determined materiality for the Parent Company to be £3.9 million (2017: £4.1 million), which is 3% (2017: 3%) of equity. Materiality for the Parent Company is higher than for Group, due to the underlying basis on which it is calculated. The Parent Company's purpose it so raise funds to finance the Group's operations, and therefore we believe Equity is the most suitable basis on which to calculate materiality.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £0.35 million (2017: £0.5 million). We have set performance materiality at this percentage due to the rate of change in the business and existence of audit differences in the previous year.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.035 million (2017: £0.05 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 39, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

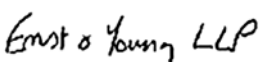
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (U.K.) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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



David Hales (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
April 28, 2019

Notes:

(1) The maintenance and integrity of the Mereo BioPharma Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

(2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	Year ended December 31, 2018 £	Year ended December 31, 2017 £
R&D expenses		**(22,703,553)**	(34,606,649)
Administrative expenses		**(12,504,887)**	(10,697,194)
Operating loss		**(35,208,440)**	(45,303,843)
Finance income	8.1	**306,831**	826,855
Finance charge	8.2	**(2,360,648)**	(1,089,925)
Net foreign exchange loss		**(43,863)**	(1,384,225)
Loss before tax	6	**(37,306,120)**	(46,951,138)
Taxation	9	**5,277,380**	8,152,084
Loss attributable to equity holders of the parent		**(32,028,740)**	(38,799,054)
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive loss for the year, net of tax and attributable to the equity holders of the parent		**(32,028,740)**	(38,799,054)
Basic and diluted loss per share	10	**(£0.45)**	(£0.56)

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2018

	Notes	December 31, 2018 £	December 31, 2017 £
Assets			
Non-current assets			
Property, plant and equipment	11	**148,935**	153,361
Intangible assets	12	**32,632,229**	33,005,229
		32,781,164	33,158,590
Current assets			
Prepayments		**1,066,932**	1,970,781
R&D tax credits	9	**5,277,380**	8,152,084
Other receivables	14	**608,893**	509,350
Short-term investments	16	**2,500,000**	2,500,000
Cash and short-term deposits	15	**25,041,945**	50,044,672
		34,495,150	63,176,887
Total assets		**67,276,314**	96,335,477
Equity and liabilities			
Equity			
Issued capital	17	**213,721**	213,285
Share premium	17	**118,492,073**	118,226,956
Other capital reserves	17	**18,592,618**	16,359,169
Employee Benefit Trust shares	27	**(306,838)**	–
Other reserves	17	**7,000,000**	7,000,000
Accumulated loss		**(111,220,794)**	(79,315,920)
Total equity		**32,770,780**	62,483,490
Non-current liabilities			
Provisions	19	**2,641,353**	4,075,386
Interest-bearing loans and borrowings	18	**14,646,753**	18,812,511
Warrant liability	20	**1,005,613**	1,346,484
Other liabilities	21	**34,289**	–
		18,328,008	24,234,381
Current liabilities			
Trade and other payables	22	**4,570,307**	3,024,026
Accruals		**4,437,321**	4,379,774
Provisions	19	**332,014**	274,000
Interest-bearing loans and borrowings	18	**6,837,884**	1,939,806
		16,177,526	9,617,606
Total liabilities		**34,505,534**	33,851,987
Total equity and liabilities		**67,276,314**	96,335,477

Approved by the Board on April 28, 2019 and signed on its behalf by:

Dr. Denise Scots-Knight
Director

Richard Jones
Director

Company number: 9481161 (England and Wales)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	December 31, 2018 £	December 31, 2017 £
Operating activities			
Loss before tax		**(37,306,120)**	(46,951,138)
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of property, plant and equipment	11	**37,796**	36,076
Share-based payment expense	24	**2,189,293**	3,651,898
Net foreign exchange loss		**43,863**	1,384,225
Provision for social security contributions on employee share options		**(1,446,019)**	1,115,966
Provision for deferred cash consideration		**443,000**	—
Interest earned	8.1	**(306,831)**	(826,855)
Finance charges	8.2	**1,917,649**	1,089,925
Modification loss on bank loan	18b	**730,037**	—
Working capital adjustments:			
Increase in receivables		**804,306**	(839,751)
Increase in payables		**1,603,828**	3,860,412
Tax received		**8,152,085**	5,331,271
Net cash flows from operating activities		**(23,137,113)**	(32,147,971)
Investing activities			
Purchase of property, plant and equipment	11	**(35,536)**	(15,568)
Purchase of license	12	**—**	(2,280,000)
Disposal of property, plant and equipment	11	**2,166**	—
Short-term investments	16	**—**	(2,500,000)
Interest earned		**284,928**	1,051,620
Net cash flows used in investing activities		**251,558**	(3,743,948)
Financing activities			
Proceeds from issue of ordinary shares	17	**273,064**	15,000,000
Transaction costs on issue of shares	17	**(7,511)**	(729,632)
Proceeds from issue of bank loan	18b	**455,000**	20,000,000
Transaction costs on bank loan		**(920,859)**	(200,000)
Interest paid on bank loan		**(1,644,610)**	(327,123)
Proceeds from TAP agreement	21	**78,445**	—
Purchase of treasury shares	27	**(306,838)**	—
Net cash flows from financing activities		**(2,073,309)**	33,743,245
Net decrease in cash and cash equivalents		**(24,958,864)**	(2,148,674)
Cash and cash equivalents at January 1		**50,044,672**	53,577,571
Effect of exchange rate changes on cash and cash equivalents		**(43,863)**	(1,384,225)
Cash and cash equivalents at December 31	15	**25,041,945**	50,044,672

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

	Issued capital £	Share premium £	Other capital reserves £	Employee Benefit Trust £	Other reserves £	Accumulated losses £	Total equity £
At December 31, 2016	193,022	99,975,399	12,667,562	—	7,000,000	(40,579,241)	79,256,742
Loss for the year to December 31, 2017	—	—	—	—	—	(38,799,054)	(38,799,054)
Share-based payments – share options (Note 25)	—	—	3,027,963	—	—	—	3,027,963
Share-based payments – LTIPs (Note 25)	—	—	298,287	—	—	—	298,287
Share-based payments – deferred bonus shares (Note 25)	—	—	325,648	—	—	—	325,648
Share-based payments – deferred equity consideration (Note 25)	—	—	1,331,288	—	—	—	1,331,288
Issue of share capital on April 4, 2017 (Note 17)	15,125	14,984,875	—	—	—	—	15,000,000
Issue of share capital on conversion of loan note (Note 17)	1,899	1,396,654	—	—	—	—	1,398,553
Issue of share capital for Novartis bonus shares (Note 17)	1,766	1,081,133	(1,082,899)	—	—	—	—
Equity element of convertible loan (Note 18a)	—	—	(208,680)	—	—	—	(208,680)
Conversion of convertible loan (Note 18a)	—	—	—	—	—	62,375	62,375
Issue of share capital on October 31, 2017 (Note 17)	1,473	1,518,527	—	—	—	—	1,520,000
Transaction costs on issuance of share capital (Note 17)	—	(729,632)	—	—	—	—	(729,632)
At December 31, 2017	213,285	118,226,956	16,359,169	—	7,000,000	(79,315,920)	62,483,490
Loss for the year to December 31, 2018	—	—	—	—	—	(32,028,740)	(32,028,740)
Adoption of IFRS 9 (Note 2.2)	—	—	—	—	—	123,866	123,866
Share-based payments – share options (Note 25)	—	—	1,869,955	—	—	—	1,869,955
Share-based payments – LTIPs (Note 25)	—	—	319,338	—	—	—	319,338
Issue of share capital on June 1, 2018 (Note 17)	150	150,078	—	—	—	—	150,228
Issue of share capital on August 3, 2018 on exercise of options (Note 17)	30	12,870	—	—	—	—	12,900
Issue of share capital on October 22, 2018 on exercise of options (Note 17)	256	109,680	—	—	—	—	109,936
Issue of warrants for TAP agreement (Note 18a)	—	—	44,156	—	—	—	44,156
Transaction costs on issuance of share capital (Note 17)	—	(7,511)	—	—	—	—	(7,511)
Purchase of treasury shares (Note 27)	—	—	—	(306,838)	—	—	(306,838)
At December 31, 2018	**213,721**	**118,492,073**	**18,592,618**	**(306,838)**	**7,000,000**	**(111,220,794)**	**32,770,780**

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

Mereo BioPharma Group plc (the "Company") is a clinical-stage, U.K.-based biopharmaceutical company focused on rare diseases.

The Company is a public limited company incorporated and domiciled in the U.K., and registered in England, with our shares publicly traded on the Alternative Investment Market of the London Stock Exchange under the ticker symbol MPH. We also are listed on the Nasdaq Global Exchange via American depositary receipts (ADRs) under the ticker symbol MREO. Our registered office is located at Fourth Floor, 1 Cavendish Place, London W1G 0QF.

The consolidated financial statements of Mereo BioPharma Group plc and its subsidiaries (collectively, the "Group") for the year ended December 31, 2018 were authorized for issue in accordance with a resolution of the directors on April 28, 2019.

2. Significant accounting policies

2.1 Basis of preparation

The Group's annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the E.U. and in accordance with the Companies Act 2006.

The financial information is presented in Sterling.

2.2 Adoption of new accounting policies

The following policies have been adopted since the start of the period:

a) IFRS 9 Financial Instruments

In the current period the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets, 3) general hedge accounting and 4) new accounting for certain modifications and exchanges of financial liabilities measured at amortized cost. The only impact on the Group is in relation to the non-substantial modification of the convertible loan notes, as detailed below. The Group has applied IFRS 9 in full without restating comparatives with an initial date of application of January 1, 2018.

In relation to the non-substantial modification of financial liabilities, IFRS 9 requires the recognition of a modification gain or loss for exchanges or modifications of financial liabilities that do not result in derecognition of the financial liability. As a result, under IFRS 9 the carrying value of the convertible loan notes at the date of modification, as more fully described in Note 18a, was adjusted to recognize the modification gain in the retained earnings as of the date of initial application of IFRS 9 (January 1, 2018).

Interest-bearing loans and borrowings – convertible loan notes

	£
At January 1, 2018 calculated under IAS 39	1,977,393
Amounts restated through retained earnings	(123,865)
At January 1, 2018 under IFRS 9	**1,853,528**

The Group has considered the adoption of IFRS 9 on receivables and determined the expected credit loss to be immaterial, and therefore no adjustment has been made for this.

b) IFRS 15 Revenue from Contracts with Customers

In the current period the Group has adopted IFRS 15 Revenue from Contracts with Customers. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. There has been no impact on Group reporting in the period.

c) IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Group will be January 1, 2019. The Group has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Group will not restate the comparative information. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

2. Significant accounting policies continued

2.2 Adoption of new accounting policies continued

c) IFRS 16 Leases continued

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

» the right to obtain substantially all of the economic benefits from the use of an identified asset; and

» the right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

As at December 31, 2018, the Group had non-cancelable operating lease commitments of £535,665.

The non-cancelable operating lease commitment and the expected lease liability balance to be recognized upon transition differs as a result of IFRS 16's requirement to include, within the lease term, the non-cancelable period of a lease, together with periods covered by an option to extend, if that option is reasonably certain to be exercised and periods covered by an option to terminate, if that option is reasonably certain to not be exercised.

A preliminary assessment indicates that all of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognize a right-of-use asset of £2,551,810 and a corresponding lease liability of £2,533,647 in respect of all these leases. The impact on 2019 profit or loss is to decrease other expenses by £1,093,920, to increase depreciation by £696,948 and to increase interest expense by £322,662. Lease liability incentives of £32,090 previously recognized in respect of the operating leases will be derecognized and the amount factored into the measurement of the right-to-use assets and lease liabilities.

The preliminary assessment indicates that £nil of these arrangements relate to short-term leases and leases of low-value assets.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the cash consumed by operating activities in 2019 by £932,268 and to increase net cash used in financing activities by the same amount.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

2. Significant accounting policies continued

2.3 Going concern

Though the Group continues to make losses, the directors believe it is appropriate to prepare the financial information on the going concern basis. This is because the Group's research into new products continues to progress according to plan and the funding secured to date, together with the funds that have come into the Group since the year end by way of the completed merger with OncoMed (as described more fully in Note 28) will allow it to meet its liabilities as they fall due for at least 12 months from the date of authorization for the issue of these consolidated financial statements.

2.4 Basis of consolidation

The consolidated financial information comprises the financial statements of Mereo BioPharma Group plc and its subsidiaries as at December 31, 2018. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

The Company has an employee share trust to facilitate share transactions pursuant to employee share schemes. Although the trust is a separate legal entity from the Group, it is consolidated into the Group's results in accordance with the IFRS 10 rules on special purpose vehicles. The Company is deemed to control the trust principally because the trust cannot operate without the funding the Group provides.

All Group subsidiaries prepare yearly financial information to December 31 consistent with the Company.

2.5 Summary of significant accounting policies

a) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, and include R&D tax credits receivable under the HM Revenue and Customs (HMRC) small or medium enterprise (SME) scheme, which provides additional taxation relief for qualifying expenditure on R&D activities, and allows for the surrender of tax losses in exchange for a cash payment from HMRC.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

Income tax credit

The Group benefits from the U.K. R&D tax credit regime whereby a portion of the Group's losses can be surrendered for a cash rebate of up to 33.35% of eligible expenditures. Such credits are accounted for within the tax provision, in the year in which the expenditures were incurred.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply to the year when the asset is realized, based on tax rates (and tax laws) enacted or substantively enacted at the end of the reporting period.

2. Significant accounting policies continued

2.5 Summary of significant accounting policies continued

b) Foreign currencies

The functional currency of the Company and its subsidiaries is Sterling. Transactions in foreign currencies are initially recorded by the Group's entities at the rate ruling on the date the transaction first qualifies for recognition.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Gains or losses on the retranslation of foreign currency balances at the year end are recognized in the consolidated statement of comprehensive loss under net foreign exchange gains/(losses).

c) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment if the recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Leasehold improvements ten years
- Office equipment five years
- IT equipment three years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

d) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive loss on a straight-line basis over the period of the lease.

The Group leases its premises (see Note 25). The Company recognizes any lease incentives on a straight-line basis over the entire period of the lease, assuming that any break clauses available will not be exercised. By not exercising any break clauses, the Group receives a 50% rent discount from the landlord for a fixed period of time as described in Note 25.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

e) Intangible assets

Intangible assets, relating to intellectual property rights acquired through licensing or assigning patents and know-how, are initially recognized at cost which has been determined as the fair value of the consideration paid and payable. Consideration comprises cash paid together with the net present value of any provision for deferred cash consideration (see Note 2p) and the fair value of consideration settled in shares. The fair value of consideration is regularly reviewed based on the probability of achieving the contractual milestones. Where share transfer occurs, the cost is measured at fair value of the shares issued or to be issued in accordance with IFRS 2. Intangible assets are held at cost less accumulated amortization and provision for impairment, if any. Where a finite useful life of the acquired intangible asset cannot be determined or the intangible asset is not yet available for use, the asset is tested annually for impairment by allocating the assets to the cash-generating units to which they relate. Amortization would commence when product candidates underpinned by the intellectual property rights become available for commercial use. No amortization has been charged to date, as the product candidates underpinned by the intellectual property rights are not yet available for commercial use.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

2. Significant accounting policies continued

2.5 Summary of significant accounting policies continued

f) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

g) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions — Note 3
- Property, plant and equipment — Note 11
- Intangible assets not yet available for use — Notes 12 and 13

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses are recognized in the statement of comprehensive loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

2. Significant accounting policies continued

2.5 Summary of significant accounting policies continued

g) Impairment of non-financial assets continued

Intangible assets not yet available for use are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired. An impairment test was performed at December 31, 2018.

h) Cash and short-term deposits

Cash and short-term deposits in the balance sheet comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

i) Short-term investments

Cash on deposit for terms greater than three months are recognized at fair value in the balance sheet.

j) Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

k) Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity settled transactions).

Incentives in the form of shares are provided to employees under the Share Option Plan. Executive officers are also provided with shares under a deferred bonus share plan ("DBSP Plan") and a long-term incentive plan ("LTIP Plan"). In accordance with IFRS 2 Share-based Payment ("IFRS 2"), charges for these incentives are expensed through the consolidated statement of comprehensive loss on a straight-line basis over their vesting period, based on the Group's estimate of shares that will eventually vest. The total amount to be expensed is determined by reference to the fair value of the options or awards at the date they were granted. For LTIP shares, the fair value excludes the impact of any non-market vesting conditions. The fair value of LTIP shares, which have market conditions attached, includes an adjustment based on the probability of the shares vesting at the end of the vesting period.

Under the 2015 Plan, options were historically awarded to employees, NEDs and certain consultants. Share options awarded to non-employees under the 2015 Plan are accounted for as options awarded to employees as the value of non-employee services could be readily determined.

In accordance with IFRS 2, the cancellation of share options is accounted for as an acceleration of the vesting period and therefore any amount unrecognized that would otherwise have been charged in future accounting periods is recognized immediately. When options are forfeited, the accounting expense for any unvested awards is reversed.

Purchases, where consideration is satisfied by issuing equity shares, is accounted for as equity settled share-based payment transactions in accordance with IFRS 2. Fair value is determined by the share price at the date of purchase.

l) Costs of issuing capital

The Group deducts directly attributable costs of issuing capital from the proceeds in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Incremental costs incurred and directly attributable to the offering of equity securities are deducted from the related proceeds of the offering. The net amount is recorded as share premium in the period when such shares are issued. Where such expenses are incurred prior to the offering they are recorded in prepayments until the offering completes. Other costs incurred in such offerings are expensed as incurred and included in general and administrative expenses.

m) Convertible loan instrument

Convertible loan notes are regarded as compound instruments consisting of a liability component and an equity component. At the date of issue the fair value of the liability component is estimated using a discount rate for an equivalent liability without the conversion feature. The difference between the proceeds of issue of the convertible loan note and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

2. Significant accounting policies continued

2.5 Summary of significant accounting policies continued

m) Convertible loan instrument continued

An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability as per IAS 39 and IFRS 9. Similarly, a substantial modification of the terms of an existing financial liability, or a part of it (whether or not due to the financial difficulty of the debtor), should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

In line with IAS 39 the terms of exchanged or modified debt are regarded as substantially different if the net present value of the cash flows under the new terms (including any fees paid net of any fees received) discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original debt instrument. Where such modifications are less than 10% different, the effective interest rate is adjusted to take account of the new terms.

n) Employee Benefit Trust

The Group operates an Employee Benefit Trust (EBT): Mereo BioPharma Group plc Employee Benefit Trust.

The EBT has been established to fulfil awards made under the Deferred Bonus Share Plan and the Long Term Incentive Plan. The EBT is a Jersey-based trust which is funded by a loan from the Company, which it will utilize to buy shares at nominal value from the Company in sufficient quantity to fulfil the envisaged awards. The EBT will acquire shares in the Company and these will be deducted from the shareholders' funds on the consolidated balance sheet at the cost of acquisition less proceeds on disposal.

In compliance with IAS 32 Financial Instruments: Presentation Group, shares held by the EBT are included in the consolidated balance sheet as a reduction in equity. Gains and losses on Group shares are recognized directly in equity.

The Group consolidated accounts treat the EBT as an extension of the Group and the Company as it is controlled and therefore consolidated.

o) R&D costs

Expenditure on product development is capitalized as an intangible asset and amortized over the expected useful economic life of the product candidate concerned. Capitalization commences from the point at which technical feasibility and commercial viability of the product candidate can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product candidate once completed. Capitalization ceases when the product candidate receives regulatory approval for launch. No such costs have been capitalized to date.

Expenditure on R&D activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Group, is charged to the statement of comprehensive loss as incurred. Intellectual property and in-process R&D from asset acquisitions are recognized as intangible assets at cost.

p) Provision for deferred cash consideration

Provision for deferred cash consideration consists of future payments which are contractually committed but not yet certain. In respect of products which are not yet approved, such deferred cash consideration excludes potential milestones, royalties or other payments that are deemed to be so uncertain as to be unquantifiable. Deferred cash consideration is recognized as a liability with the amounts calculated as the risk adjusted net present value of anticipated deferred payments.

The provision is reviewed at each balance sheet date and adjusted based on the likelihood of contractual milestones being achieved and therefore the deferred payment being settled. Increases in the provision relating to changes in the probability are recognized as an intangible asset. Increases in the provision relating to the unwinding of the time value of money are recognized as a finance expense.

q) Bank loan and associated warrants

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate (EIR) method. The EIR amortization is included as a finance charge in the statement of comprehensive loss. This category applies to interest-bearing borrowings, trade and other payables.

As the terms of the warrant instrument allow for a cashless exercise, in line with IAS 32 the associated warrants are measured at fair value with changes recorded through the statement of comprehensive loss (see Note 20).

An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability as per IAS 39 and IFRS 9. Similarly, a substantial modification of the terms of an existing financial liability, or a part of it, (whether or not due to the financial difficulty of the debtor) should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability as the warrants will be settled by providing a fixed number of shares for a fixed amount of cash.

2. Significant accounting policies continued

2.5 Summary of significant accounting policies continued

q) Bank loan and associated warrants continued

In line with IAS 39 the terms of exchanged or modified debt are regarded as substantially different if the net present value of the cash flows under the new terms (including any fees paid net of any fees received) discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original debt instrument. Where such modifications are less than 10% different, the effective interest rate is adjusted to take account of the new terms.

r) The Alpha-1 Project (TAP) funding agreement and associated warrants

The agreement is regarded as a compound instrument which includes both debt and equity components. As per IAS 32:31 the liability is measured first at fair value and the residual value allocated to the equity component. The difference between the funding payment amount received and the measurement of the liability will be allocated to the warrants and recognized in equity. The value of warrants in equity will not be subsequently remeasured as the warrants will be settled by providing a fixed number of shares for a fixed amount of cash.

3. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated accounts requires the management of the Group to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Group bases its estimates and judgments on historical experience and on various other assumptions that it considers to be reasonable. Actual results may differ from these estimates under different assumptions or conditions.

Judgments

Share-based compensation

Incentives in the form of shares are provided to employees under a share option plan, long-term incentive plan and deferred bonus share plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The expense is based upon a number of assumptions disclosed in Note 24. The selection of different assumptions could affect the results of the Group.

Impairment of intangible assets and property, plant and equipment

An assessment was made in respect of indicators of impairment in the carrying value of the Group's intangible assets (see Note 13) and leasehold improvements, office equipment and IT equipment as at December 31, 2018. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. The assessment of intangible assets involves a number of judgments regarding the likelihood of successful product approval, the costs of reaching approval and the subsequent commercial profitability of the product once approved.

Estimates

Deferred license consideration

Deferred consideration in the form of cash is recognized as a provision at each balance sheet date, to the extent its amount is quantifiable at the inception of the arrangement. The amount provided is based on a number of estimates regarding the timing and progress of the related research.

Deferred consideration in the form of shares is recognized as a share-based payment when it is probable that shares will be transferred.

Bank loan and associated warrants

As part of the bank loan the Group has issued warrants to subscribe for shares. The fair value of the warrants issued is assessed at each balance sheet date based upon a number of estimates, as disclosed in Note 20.

4. Segment information

Management views the business as a single portfolio of product candidates. Only R&D expenses are monitored at a product candidate level; however, the Chief Operating Decision Maker (CODM) makes decisions over resource allocation at an overall portfolio level. The Group's financing is managed and monitored on a consolidated basis. All non-current assets held by the Group are located in the U.K.

The Company's CODM is the executive management team (comprised of the Chief Executive Officer, Chief Financial Officer, Chief Medical Officer, General Counsel, the Head of Corporate Development and the Head of Patient Access and Commercial Planning) which manages the operating results of the business.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

5. Group information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal activities	Country of incorporation	% equity interest December 31, 2018	% equity interest December 31, 2017
Mereo BioPharma 1 Limited	Pharmaceutical R&D	U.K.	**100**	100
Mereo BioPharma 2 Limited	Pharmaceutical R&D	U.K.	**100**	100
Mereo BioPharma 3 Limited	Pharmaceutical R&D	U.K.	**100**	100
Mereo BioPharma 4 Limited	Pharmaceutical R&D	U.K.	**100**	100
Mereo BioPharma Ireland Limited	Pharmaceutical R&D	Ireland	**100**	—
Mereo US Holdings Inc.		U.S.	**100**	—
Mereo MergerCo One Inc.		U.S.	**100**	—
Mereo BioPharma Group plc Employee Benefit Trust	Employee share scheme	Jersey	**—**	—

The registered office of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma 4 Limited is located at Fourth Floor, 1 Cavendish Place, London W1G 0QF.

Mereo BioPharma Ireland Limited was incorporated on June 1, 2018. The registered office of Mereo BioPharma Ireland Limited is 25/28 North Wall Quay, Dublin 1 D01H104, Ireland.

Mereo US Holdings Inc. and Mereo MergerCo One Inc. were incorporated on December 3, 2018 for the sole purpose of effecting the proposed business combination with OncoMed (see Note 28). The registered office of Mereo US Holdings Inc. and Mereo MergerCo One Inc. is 251 Little Falls Drive, City of Wilmington, County of New Castle, Delaware 19808, U.S. Mereo MergerCo One Inc. is a 100% owned subsidiary of Mereo US Holdings Inc.

Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma Ireland Limited each have issued share capital of one ordinary share of £1 fully paid or credited as fully paid, totaling £5.

Mereo BioPharma 4 Limited has issued share capital of two ordinary shares of £1 fully paid or credited as fully paid, totaling £2. On June 27, 2018, following the capitalization of the intercompany balance with Mereo BioPharma Group, Mereo BioPharma 4 Limited issued one ordinary share of £1 in the capital of the company to Mereo BioPharma Group plc for a subscription amount of £1,608,609.

Mereo US Holdings Inc. has issued share capital of one share of common stock of $0.01 fully paid or credited as fully paid, totaling $0.01.

Mereo MergerCo One Inc. has issued share capital of one hundred shares of common stock of $0.01 fully paid or credited as fully paid, totaling $1.

Under IFRS, the Employee Benefit Trust is treated as an extension of the Group and the Company as it is controlled and therefore consolidated.

6. Loss before taxation

Loss before tax is stated after charging:

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Fees payable to the Company's Auditor for the audit of Group accounts	**323,393**	178,457
Fees payable to the Company's Auditor for other services:		
Audit of subsidiary accounts	**30,000**	21,000
Audit-related assurance services	**170,900**	—
Accounting advisory services	**9,500**	2,500
Legal and professional fees including patent costs	**935,723**	683,668
Operating lease expense	**293,328**	293,328
Depreciation	**39,872**	36,076

7. Employees and directors

The average monthly number of persons (including executive directors) employed by the Group and Company during the year was:

	Year ended December 31, 2018 Number	Year ended December 31, 2017 Number
By activity		
Office and management	**24**	18
R&D	**12**	10
Total	**36**	28

The Group contributes to defined contribution pension schemes for its executive directors and employees. Contributions of £16,986 (2017: £19,375) were payable to the funds at the year end.

The details of directors of Mereo BioPharma Group plc who received emoluments from the Group and Company are shown in the table below:

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Salaries and fees	**1,032,361**	962,658
Benefits in kind	**15,101**	12,784
Pension contributions	**11,078**	34,507
Bonus	**511,680**	408,975
Total	**1,570,220**	1,418,924

Full details of the directors' remuneration and directors' options are contained in the Directors' Remuneration Report. The audited directors' remuneration is included under the heading "Directors' remuneration for the year ended December 31, 2018" on page 35, and "Directors' interests in the share capital of the Company" on page 36. No other information included in the Directors' Remuneration Report is subject to audit.

Compensation of key management personnel of the Group

Key management includes directors (executive and non-executive) and executive officers being the General Counsel, the Chief Medical Office, the Head of Corporate Development and the Head of Patient Access and Commercial Planning. The compensation paid or payable to key management is set out below:

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Short-term benefits	**3,176,168**	2,756,979
Post-employment benefits	**59,522**	87,269
IFRS 2 share-based payment charge	**1,470,025**	2,726,337
Total compensation paid to key management personnel	**4,705,715**	5,570,585

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

8. Other income/expenses and adjustments

8.1. Finance income

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Bank interest earned	**306,831**	826,855

8.2. Finance charge

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Interest payable on convertible loan	**(185,352)**	(103,115)
Interest payable on bank loan	**(1,644,610)**	(327,123)
Accreted interest on bank loan	**(781,998)**	(66,935)
Transaction costs on bank loan	**—**	(200,000)
Loss on short-term deposits	**(21,903)**	(338,279)
Unwinding of discount in the provision for deferred cash consideration	**(443,000)**	—
Change in warrant fair value	**716,214**	(54,473)
Total	**(2,360,648)**	(1,089,925)

8.3. Employee benefits expense

	December 31, 2018 £	December 31, 2017 £
Included in R&D expenses:		
Salaries	**1,791,679**	1,640,373
Social security costs (See Note 19)	**(29,670)**	420,417
Pension contributions	**73,401**	77,425
Share-based payment expense	**525,972**	822,173
Included in administrative expenses:		
Salaries	**2,902,759**	2,253,393
Social security costs	**(827,509)**	1,159,548
Pension contributions	**97,962**	96,598
Share-based payment expense	**1,663,322**	2,829,725
Total employee benefits expense	**6,197,916**	9,299,652

9. Income tax

The Group is entitled to claim tax credits in the U.K. under the U.K. R&D small or medium-sized enterprise (SME) scheme, which provides additional taxation relief for qualifying expenditure on R&D activities and includes an option to surrender a portion of tax losses arising from qualifying activities in return for a cash payment from HM Revenue & Customs (HMRC). The amount included in the financial statements represents the credit receivable by the Group for the year. The claims in respect of the year ended December 31, 2017 were received by the Group in May 2018. In the year ended December 31, 2018 amounts have not yet been agreed with the relevant tax authorities.

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
U.K. corporation tax R&D credit	**5,277,380**	8,152,084
Income tax credit	**5,277,380**	8,152,084

The charge for the year can be reconciled to the loss per the income statement as follows:

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Loss on ordinary activities before income tax	**(37,306,120)**	(46,951,138)
Loss on ordinary activities before tax at the U.K.'s statutory income tax rate of 19% (2017: 19.25%)	**7,088,163**	9,038,094
Expenses not deductible for tax purposes (permanent differences)	**(1,069,606)**	(14,316)
Temporary timing differences	**(276,881)**	(711,677)
R&D relief uplift	**2,270,777**	3,447,474
Losses (unrecognized)	**(2,803,796)**	(3,784,801)
Deferred income from MBG loan guarantee costs	**68,723**	177,310
Tax credit for the year	**5,277,380**	8,152,084

At December 31, 2018 the Group had tax losses to be carried forward of approximately £50,611,184 (2017: £36,010,916).

Deferred tax

Deferred tax relates to the following:

	December 31, 2018 £	December 31, 2017 £
Losses	**8,603,902**	6,121,400
Fixed assets	**3,011**	—
Other	**2,888**	—
Temporary differences trading	**494,779**	2,266,798
Net deferred tax asset	**9,104,580**	8,388,198

The deferred tax asset has not been recognized as there is uncertainty regarding when suitable future profits against which to offset the accumulated tax losses will arise. There is no expiration date for the accumulated tax losses.

A reduction in the rate of U.K. corporation tax to 19% from April 1, 2017 and to 17% from April 1, 2020 has been substantively enacted. The standard rate of corporation tax applied to reported loss is 19% (2017: 19.25%) and any U.K. deferred tax assets and liabilities would be recognized at a rate of 17%.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

10. Loss per share

Basic loss per share is calculated by dividing the loss attributable for the year to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. As net losses from continuing operations were recorded in the year, the dilutive potential shares are anti-dilutive for the earnings per share calculation.

	Year ended December 31, 2018			Year ended December 31, 2017		
	Loss £	**Weighted shares Number**	**Loss per share £**	Loss £	Weighted shares Number	Loss per share £
IFRS – basic and diluted	**(32,028,740)**	**71,144,786**	**(0.45)**	(38,799,054)	69,012,348	(0.56)

The Company operates share option schemes (see Note 25) which could potentially dilute basic earnings per share in the future. In addition, there exist within equity 864,988 (2017: 864,988) shares to be issued which also have the potential to dilute basic earnings per share in the future (see Note 17).

As part of a license and option agreement with AstraZeneca (see Note 25), additional future payments of a maximum of 1,349,692 new ordinary shares would be payable on reaching certain clinical milestones.

Warrants totaling 41,286 were issued in 2018 that could potentially dilute basic earnings per share if converted. Warrants totaling 696,490 were issued in 2017 that could potentially dilute basic earnings per share if converted.

For transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements, see Note 29.

11. Property, plant and equipment

	Leasehold improvements £	Office equipment £	IT equipment £	Total £
Cost or valuation				
At January 1, 2018	155,494	30,131	48,113	233,738
Additions	9,119	1,270	25,147	35,536
Disposals	—	—	(2,167)	(2,167)
At December 31, 2018	**164,613**	**31,401**	**71,093**	**267,107**
Depreciation and impairment				
At January 1, 2018	(36,723)	(10,726)	(32,928)	(80,377)
Disposals	—	—	1,685	1,685
Depreciation for the year	(15,909)	(6,238)	(17,334)	(39,481)
At December 31, 2018	**52,632**	**16,964**	**48,577**	**118,173**
Net book value				
At January 1, 2018	118,771	19,405	15,185	153,361
At December 31, 2018	**111,981**	**14,437**	**22,516**	**148,934**

11. Property, plant and equipment continued

	Leasehold improvements £	Office equipment £	IT equipment £	Total £
Cost or valuation				
At January 1, 2017	155,494	20,024	42,652	218,170
Additions	—	10,107	5,461	15,568
Disposals	—	—	—	—
At December 31, 2017	155,494	30,131	48,113	233,738
Depreciation and impairment				
At January 1, 2017	(21,174)	(5,340)	(17,787)	(44,301)
Disposals	—	—	—	—
Depreciation for the year	(15,549)	(5,386)	(15,141)	(36,076)
At December 31, 2017	(36,723)	(10,726)	(32,928)	(80,377)
Net book value				
At January 1, 2017	134,320	14,684	24,865	173,869
At December 31, 2017	118,771	19,405	15,185	153,361

12. Intangible assets

	Acquired development programs £
Cost at January 1, 2018 and December 31, 2018	33,005,229
Amortization and impairment	
At January 1, 2018	—
Revision to estimated value	(373,000)
At December 31, 2018	**(373,000)**
Net book value	
At January 1, 2018	33,005,229
At December 31, 2018	**32,632,229**

	Acquired development programs £
Cost at January 1, 2017	25,812,941
Additions	7,192,288
At December 31, 2017	33,005,229
Amortization and impairment	
At January 1, 2017	—
Impairment (Note 13)	—
At December 31, 2017	—
Net book value	
At January 1, 2017	25,812,941
At December 31, 2017	33,005,229

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

12. Intangible assets continued

The Group's strategy is to acquire clinical-stage development programs for the treatment of non-rare and rare diseases from large pharmaceutical companies.

On October 28, 2017, the Group acquired the exclusive license for MPH-966 and included the option to acquire certain assets from AstraZeneca AB ("AstraZeneca"). MPH-966 is being developed for the treatment of severe alpha-1 antitrypsin deficiency, at a cost of £7,192,288 as follows:

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Cash payment in October 2017	**2,280,000**	2,280,000
Equity issued (see Note 17)	**1,520,000**	1,520,000
Deferred equity consideration (see Note 24)	**1,331,288**	1,331,288
Provision for deferred cash consideration (see Note 19)	**1,688,000**	2,061,000
	6,819,288	7,192,288

The provision for deferred cash consideration was reviewed at December 31, 2018 (see Note 19). The decrease in present value due to changes in timelines and probability of contractual milestones being achieved was £373,000 and is recognized in the intangible asset in line with our accounting policies.

13. Impairment testing of acquired development programs not yet available for use

Acquired development programs not yet available for use are assessed annually for impairment.

The carrying amount of acquired development programs is as follows:

	As at December 31, 2018 £				
	BPS-804 (setrusumab)	**MPH-966 (alvelestat)**	**BGS-649 (leflutrozole)**	**BCT-197 (acumapimod)**	**Total**
Acquired development programs	**11,615,824**	**6,819,288**	**9,886,356**	**4,310,761**	**32,632,229**

	As at December 31, 2017 £				
	BPS-804 (setrusumab)	MPH-9668 (alvelestat)	BGS-649 (leflutrozole)	BCT-197 (acumapimod)	Total
Acquired development programs	11,615,824	7,192,288	9,886,356	4,310,761	33,005,229

The Group considers the future development costs, the probability of successfully progressing each program to product approval and the likely commercial returns after product approval, among other factors, when reviewing for indicators of impairment. The results of this testing did not indicate any impairment of the acquired products' rights in the year to December 31, 2018. The directors believe that the likelihood of a materially different outcome using different assumptions is remote.

The acquired development programs are assets which are not used in launched products. These assets have not yet begun to be amortized but have been tested for impairment by assessing their value in use. Value in use calculations for each program are utilized to calculate the recoverable amount. The calculations use pre-tax cash flow projections covering the period through product development to commercial sales up to the later of loss of patent protection or market exclusivity, which extend beyond five years from the balance sheet date. Approved products are assumed to be out-licensed such that the Group receives signature fees, milestone receipts and royalties on sales; therefore, the Group does not incur any costs of commercialization after out-licensing.

Key assumptions for the value in use calculations are described as follows:

- development costs to obtain regulatory approval – costs are estimated net of any contributions expected from collaborative arrangements with future partners. The directors have developed cost estimates based on their previous experience and in conjunction with the expertise of their clinical development partners;
- launch dates of products – these reflect management's expected date of launch for products based on the timeline of development programs required to obtain regulatory approval. The assumptions are based on the directors' and clinical development partners' prior experience;

13. Impairment testing of acquired development programs not yet available for use continued

- probability of successful development – management estimates probabilities of success for each phase of development based on industry averages and knowledge of specific programs;
- out-licensing signature fees, milestones and royalty rates on sales – management estimates these amounts based on prior experience and access to values from similar transactions in the industry, which are collated and accessible from specialist third-party sources;
- sales projections – these are based on management's internal projections using external market data and market research commissioned by the Company;
- profit margins and other operational expenses – these are based on the Company's internal projections of current product manufacturing costings, with input from manufacturing partners where applicable, and estimates of operating costs based on management's prior industry experience;
- cash flow projections – for all assets, cash flows are assessed over an industry-standard asset life of 20 years; and
- discount rates – the discount rate is estimated on a pre-tax basis reflecting the estimated cost of capital of the Group and is applied consistently across each of the operating segments. The cost of capital was calculated at 15.3% (2017: 15.3%).

At this stage of product development, the key sensitivity for all three development programs is the probability of successful completion of clinical trials in order to obtain regulatory approval for sale. Therefore, full impairment of a development program is expected should such related trials be unsuccessful.

14. Other receivables

	December 31, 2018 £	December 31, 2017 £
Rent deposit	**293,328**	293,328
VAT recoverable	**315,565**	212,422
Cash held by Employee Benefit Trust	**—**	3,600
	608,893	509,350

15. Cash and short-term deposits

	December 31, 2018 £	December 31, 2017 £
Cash at banks and on hand	**5,343,975**	11,005,675
Short-term deposits	**19,697,970**	39,038,997
	25,041,945	50,044,672

Cash at banks earns interest at floating rates based on daily bank deposit rates, with maturity of three months or less. Short-term deposits are available immediately and earn fixed interest at the respective short-term deposit rates and are held in a diversified portfolio of counterparties.

16. Short-term investments

	December 31, 2018 £	December 31, 2017 £
Short-term investments	**2,500,000**	2,500,000

Short-term investments consist of cash deposits held with greater than three months' term to maturity. None of these investments are held with terms greater than a year.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

17. Issued capital and reserves

Ordinary share capital	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Balance at beginning of year	**213,285**	193,022
Issuances in the year	**436**	20,263
Nominal share capital as at December 31	**213,721**	213,285

Ordinary shares of £0.003 each issued and fully paid	
At January 1, 2018	**71,094,974**
Issued on June 1, 2018 for public offering	**50,076**
Issued on August 3, 2018 for exercise of share options	**10,000**
Issued on October 22, 2018 for exercise of share options	**85,222**
At December 31, 2018	**71,240,272**
Nominal value at December 31, 2018 (£)	**0.003**
Issued capital at December 31, 2018 (£)	**213,721**

Ordinary shares issued and fully paid	
At January 1, 2017	64,340,798
Issued on April 3, 2017 for private placement financing round	5,042,017
Issued on April 26, 2017 for conversion of loan note	1,221,361
Issued on October 28, 2017 for acquisition of license	490,798
At December 31, 2017	71,094,974
Nominal value at December 31, 2017 (£)	0.003
Issued capital at December 31, 2017 (£)	213,285

Since January 1, 2017, the following alterations to the Company's share capital have been made:

- under the private placement dated April 3, 2017, the Company issued and allotted 5,042,017 ordinary shares of £0.003 in nominal value in the capital of the Company on April 3, 2017 at a price of £2.975 per share to institutional investors. Gross cash received was £15,000,000;
- on April 26, 2017 Novartis converted £1,398,552 of loan notes dated June 3, 2016 into 632,829 ordinary shares of £0.003 in nominal value in the capital of the Company at the fixed conversion price of £2.21 per share. Under the terms of the notes, Novartis also received 588,532 bonus shares;
- on October 31, 2017, Mereo BioPharma Group plc issued 490,798 ordinary shares of £0.003 in nominal value in the capital of the Company to AstraZeneca AB as part payment for the acquisition by Mereo BioPharma 4 Limited of an exclusive license and option to acquire certain assets;
- under the public offering dated June 1, 2018, the Company issued and allotted 50,076 ordinary shares of £0.003 in nominal value in the capital of the Company on June 1, 2018 at a price of £3.00 per share to investors. Gross cash received was £150,228;
- on August 3, 2018 the Company issued and allotted 10,000 ordinary shares of £0.003 in nominal value in the capital of the Company pursuant to an exercise of employee share options; and
- on October 22, 2018 the Company issued and allotted 85,222 ordinary shares of £0.003 in nominal value in the capital of the Company pursuant to an exercise of employee share options.

17. Issued capital and reserves continued

Share premium	December 31, 2018 £
At January 1, 2018	**118,226,956**
Issued on June 1, 2018 for public offering	**150,078**
Issued on August 3, 2018 for exercise of share options	**12,870**
Issued on October 22, 2018 for exercise of share options	**109,681**
Transaction costs for issued share capital	**(7,512)**
At December 31, 2018	**118,492,073**

Share premium	December 31, 2017 £
At January 1, 2017	99,975,399
Issued on April 3, 2017 for private placement financing round	14,984,875
Issued on April 26, 2017 for conversion of loan note	2,477,787
Issued on October 28, 2017 for acquisition of license	1,518,527
Transaction costs for issued share capital	(729,632)
At December 31, 2017	118,226,956

Other capital reserves

	Shares to be issued £	Share-based payments £	Equity component of convertible loan £	Warrants issued for TAP funding £	Total £
At January 1, 2018	1,591,578	14,459,469	308,122	—	16,359,169
Share-based payments expense during the year	—	2,302,335	—	—	2,302,335
Share-based payments release for exercise of options	—	(113,042)	—	—	(113,042)
Warrants issued for TAP funding	—	—	—	44,156	44,156
At December 31, 2018	**1,591,578**	**16,648,762**	**308,122**	**44,156**	**18,592,618**

	Shares to be issued £	Share-based payments £	Equity component of convertible loan £	Total £
At January 1, 2017	2,674,477	9,476,283	516,802	12,667,562
Share-based payments expense during the year	—	4,983,186	—	4,983,186
Shares issued	(1,082,899)	—	—	(1,082,899)
Equity component of convertible loan instrument	—	—	(208,680)	(208,680)
At December 31, 2017	1,591,578	14,459,469	308,122	16,359,169

Share-based payments

The Group has various share option schemes under which options to subscribe for the Group's shares have been granted to certain executives, NEDs and employees (see Note 25 for further details).

The share-based payment reserve is used to recognize a) the value of equity settled share-based payments provided to employees, including key management personnel, as part of their remuneration and b) deferred equity consideration. Refer to Note 25 for further details of these plans.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

17. Issued capital and reserves continued

Shares issued/to be issued

Shares to be issued at January 1, 2017 of £2,674,477 represented a maximum of 1,453,520 shares at £1.84 remaining to be issued to Novartis pro rata to its percentage shareholding as and when the Company issues further ordinary shares.

Of the 1,221,361 ordinary shares issued on April 26, 2017, 588,532 shares were issued to Novartis as fully paid up bonus shares (for £nil consideration), the number of which was calculated to maintain its shareholding at 19.5%. The fair value of these shares was £1.84 per share. At December 31, 2018 and December 31, 2017, £1,591,578 representing a maximum of 864,988 shares at £1.84 were remaining to be issued to Novartis pro rata to its percentage shareholding as and when the Company issues further ordinary shares.

Equity component of convertible loan instrument

The convertible loan notes issued to Novartis are a compound instrument consisting of a liability and an equity component (see Note 18a). The value of the equity component (cost of the conversion option) as at December 31, 2018 is £308,122 (2017: £308,122).

Warrants issued for TAP funding

The funding arrangements with The Alpha-1 Project are a compound instrument consisting of a liability and an equity component (see Note 21). The value of the equity component (consideration received for the warrants) as at December 31, 2018 is £44,156 (2017: £nil).

Accumulated loss

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Other reserves	**7,000,000**	7,000,000
Accumulated losses	**(111,220,794)**	(79,315,920)
Accumulated deficit	**(104,220,794)**	(72,315,920)

On March 21, 2016 the directors of the Company signed a solvency statement with the agreement of all shareholders and undertook a capital reduction, reducing the share premium account by £7,000,000 and crediting a new other reserve by the same amount.

18. Interest-bearing loans and borrowings

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Novartis Notes – see Note 18a	**2,038,881**	1,977,393
Bank loan – see Note 18b	**19,445,756**	18,774,924
At December 31	**21,484,637**	20,752,317
Current	**6,837,884**	1,939,806
Non-current	**14,646,753**	18,812,511

18a. Convertible loan note

On June 3, 2016, the Company issued 3,463,563 £1 unsecured convertible loan notes ("Novartis Notes") to Novartis Pharma AG, a shareholder of the Company (see Note 26) in consideration for an investment in cash by Novartis at the time of the private placement on June 9, 2016. The Novartis Notes attract an interest rate of 4% per annum, accruing daily, and constitute direct, unsecured obligations of the Company ranking ahead of any other unsecured obligations of the Company.

On April 26, 2017 Novartis converted £1,398,553 of loan notes into 632,829 ordinary shares at the fixed conversion price of £2.21 per share. This has been recorded as a £1,187,974 reduction in interest-bearing loans and borrowings, a reduction in other capital reserves of £208,680 and a reduction in accumulated losses of £62,375. Under the terms of the notes, Novartis also received 588,532 bonus shares. Novartis holds £2,065,011 principal value of notes at December 31, 2017 representing 934,394 ordinary shares if converted, together with 864,988 potential bonus shares; together these represent 2.5% of the current share capital of the Company as at December 31, 2017.

18. Interest-bearing loans and borrowings continued

18a. Convertible loan note continued

In August 2017, in connection with the new loan agreements (see Note 18b), Novartis agreed to amend the terms of its Novartis Notes. Under the revised terms of the Novartis Notes, the loan is subordinated to the Silicon Valley Bank and Kreos Capital loan such that Novartis shall be entitled, at any time up to the repayment of the foregoing loan, being March 2, 2021, to serve a conversion notice on the Company to convert all or some only of the outstanding Novartis Notes into fully paid ordinary shares at a conversion price of £2.21 per share. To the extent the Novartis Notes are not converted at that date, the outstanding principal amount of the Novartis Notes, together with any accrued and unconverted interest, is redeemable. Upon conversion of any Novartis Notes, in addition to the relevant number of conversion shares, Novartis is entitled to receive an additional number of ordinary shares in the Company equal to the number of conversion shares into which such Novartis Notes are to convert, multiplied by 0.93, up to a maximum aggregate number of 864,988 such bonus shares.

The value of the debt component of the notes at the date of issue was calculated as £2,946,761. The cash flows attached to the note up to the maturity date were calculated and discounted at an appropriate venture debt rate of 10%. The carrying amount at December 31, 2018 is £2,038,881 (2017: £1,977,393). The Group has applied IFRS 9 Financial Instruments in full without restating comparatives with an initial date of application of January 1, 2018 (see Note 3.1).

The value of the equity component of the Notes at December 31, 2018 was calculated as £308,123 (2017: £308,123).

18b. Bank loan

On August 7, 2017, the Group entered into a loan agreement with Silicon Valley Bank and Kreos Capital V (UK) Limited, which provides for total borrowings of £20.0 million and the issue of warrants over shares in the Company (see Note 20). £10.0 million was drawn down on each of August 21, 2017 (Tranche 1) and December 29, 2017 (Tranche 2) for general working capital purposes. The Group was obligated to make interest-only payments on the loan amount until September 30, 2018, and thereafter the Group was obligated to pay interest and principal in 30 equal monthly instalments until March 31, 2021, the maturity date. The loan bore interest at an annual fixed rate equal to 9.0%. In addition, a final payment of 7.5% of the principal loan amount was due upon the earlier of the maturity date, prepayment in whole of the loan amount, mandatory repayment, acceleration of the loan, and the loan becoming immediately due and payable due to an event of default. The loan was secured by substantially all of the Group's assets, including intellectual property rights owned or controlled by the Group. The terms of the debt facility included an interest-only period to September 30, 2018, a 30-month capital and interest repayment period thereafter, a 9% headline interest rate and customary security over all assets of the Group.

The fair value of warrants issued as part of Tranche 1 on August 21, 2017 was £657,676. The fair value of the loan liability of Tranche 1 on August 21, 2017 was £9,342,324. Application of the effective interest method was required to accrete the initial loan liability value up to the face value of the loan at the end of the loan term. This non-cash interest charge was to be made in each statutory reporting period. The annual value of this interest charge was £182,133, which was an effective interest rate of 1.95%.

The fair value of warrants issued as part of Tranche 2 on December 29, 2017 was £634,335. The fair value of the loan liability of Tranche 2 on December 29, 2017 was £9,365,665. Application of the effective interest method was required to accrete the initial loan liability value up to the face value of the loan at the end of the loan term. This non-cash interest charge was to be made in each statutory reporting period. The annual value of this interest charge is £194,892, which was an effective interest rate of 2.08%.

On 30 September 2018 (the "modification date"), the Group and the lender signed a revised loan agreement (the "new loan"), with the intention that this would replace the old loan (with the proceeds of the new loan being used to settle the old loan). The new loan is viewed as a modification of the original loan because it was agreed with the same lenders as under the old loan and the old loan was not repayable at par with no penalty.

The new loan has a principal amount of £20.455 million and will mature on March 1, 2021, unless extended on reaching certain milestones.

The Group is obligated to make interest-only payments on the loan amount until April 30, 2019, and thereafter the Group is obligated to pay interest and principal in 23 equal monthly instalments until March 31, 2021, the maturity date. The loan bears interest at an annual fixed rate equal to 8.5%. In addition, a final payment of 10.5% of the principal loan amount is due upon the earlier of the maturity date, prepayment in whole of the loan amount, mandatory repayment, acceleration of the loan, and the loan becoming immediately due and payable due to an event of default. The loan is secured by substantially all of the Group's assets, including intellectual property rights owned or controlled by the Group. The terms of the debt facility include an interest-only period to April 30, 2019, a 23-month capital and interest repayment period thereafter, a 8.5% headline interest rate and customary security over all assets of the Group.

The modification loss is calculated as the difference in the present value of the cash flows under the original and modified terms. The modification loss has been calculated accordingly in the amount of £730,037 and has been recognized in profit and loss as of the date of the modification.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

18. Interest-bearing loans and borrowings continued

18b. Bank loan continued

The old loan was not derecognized; instead, at the point of modification, the carrying value of the loan was revised to reflect the new cash flows discounted by the original EIR as well as costs and fees incurred for the modification and any cash paid to or received from the lender under the terms of the new loan. Once the carrying amount of the liability was adjusted for costs and fees incurred as part of the modification, the EIR was recalculated to spread those costs and fees over the life of the modified liability.

On the modification date, the Group issued 225,974 additional warrants ("additional warrants"), for nil consideration, to the lender with the same key terms as the original warrants. The fair value of the additional warrants as of their grant date (September 30, 2018) was £375,343.

The total carrying value of the loan at December 31, 2018 was £19,445,756 (2017: £18,774,924). £6,837,884 (2017: £1,939,806) is a current liability and £12,607,872 (2017: £16,835,118) is a non-current liability. A total of £781,998 (2017: £66,935) of non-cash interest has been charged to the statement of comprehensive loss in the period.

19. Provisions

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Social security contributions on share options	**842,367**	2,288,386
Provision for deferred cash consideration	**2,131,000**	2,061,000
At December 31	**2,973,367**	4,349,386
Current	**332,014**	274,000
Non-current	**2,641,353**	4,075,386

Social security contributions on share options	Year ended December 31, 2018 £	Year ended December 31, 2017 £
At beginning of year	**2,288,386**	1,172,420
Arising during the year	**—**	1,115,966
Released	**(1,446,019)**	—
At December 31	**842,367**	2,288,386
Current	**—**	—
Non-current	**842,367**	2,288,386

The provision for social security contributions on share options is calculated based on the number of options outstanding at the reporting date that are expected to be exercised. The provision is based on the estimated gain arising on exercise of the share options, using the best estimate of the market price at the balance sheet date. Since the directors assume the options will be held for their full contractual life of ten years (see Note 24) the liability has been classified as non-current. The provision has been discounted. The negative charge in 2018 is due to the fall in the Company's share price between December 31, 2017 and December 31, 2018.

19. Provisions continued

Provision for deferred cash consideration	Year ended December 31, 2018 £	Year ended December 31, 2017 £
At beginning of year	**2,061,000**	—
Arising during the year	**—**	2,061,000
Increase in provision due to the unwinding of the time value of money	**443,000**	—
Decrease in provision due to a change in estimates relating to timelines and probabilities of contractual milestones being achieved (see Note 12)	**(373,000)**	—
At December 31	**2,131,000**	2,061,000
Current	**332,014**	274,000
Non-current	**1,798,986**	1,787,000

The deferred cash consideration is the estimate of the quantifiable but not certain future cash payment obligations due to AstraZeneca for the acquisition of certain assets (see Note 12). This liability is calculated as the risk-adjusted net present value of future cash payments to be made by the Group. The payments are dependent on reaching certain milestones based on the commencement and outcome of clinical trials. The likelihood of achieving such milestones is reviewed at the balance sheet date and increased or decreased as appropriate.

20. Warrant liability

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
At beginning of year	**1,346,484**	—
Arising during the year	**375,343**	1,292,011
Movement during the year	**(716,214)**	54,473
At December 31	**1,005,613**	1,346,484

As part of the bank loan facility (see Note 18b), 363,156 warrants to subscribe for shares were issued to the lenders on August 21, 2017. These warrants will be capable of exercise until August 7, 2027 at an exercise price of £3.029. A further 333,334 warrants were issued to the lenders on December 29, 2017. These warrants will be capable of exercise until August 7, 2027 at an exercise price of £3.30. A further 225,974 warrants were issued to the lenders on October 1, 2018. These warrants will be capable of exercise until October 1, 2028 at an exercise price of £2.31. The total of 922,464 warrants is equivalent to 1.30% of ordinary share capital at December 31, 2018.

The terms of the warrant instrument allow for a cashless exercise. In line with IAS 32, the future number of shares to be issued to the warrant holder under a cashless exercise can only be determined at that future date. At each balance sheet date, the fair value of the warrants will be assessed using the Black Scholes model taking into account appropriate amendments to inputs in respect of volatility and remaining expected life of the warrants.

The following table lists the weighted average inputs to the models used for the fair value of warrants granted during the year ended December 31:

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Expected volatility (%)	**65**	50–51
Risk-free interest rate (%)	**1.56**	1.10–1.25
Expected life of share options (years)	**10.0**	9.6–10.0
Market price of ordinary shares (£)	**2.31**	3.00–3.25
Model used	**Black Scholes**	Black Scholes

The fair value of the warrants at grant was £1,667,354. At December 31, 2018 it was £1,005,613 (2017: £1,346,484).

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

20. Warrant liability continued

Since there is no historical data in relation to the expected life of the warrants, the contractual life of the options was used in calculating the expense for the year.

Volatility was estimated by reference to the share price volatility of a group of comparable companies over a retrospective year equal to the expected life of the warrants.

21. Other liability

	Year ended December 31, 2018 £
At beginning of year	—
Arising during the year	**34,289**
At December 31	**34,289**

On October 8, 2018, the Group entered into a funding agreement with The Alpha-1 Project ("TAP"), which provides for total potential payments to Mereo of $400,000 as contributions towards the development of MPH-966 upon completion of certain milestones by the Group. In exchange, on receipt of such funding, the Group will issue warrants allowing TAP to subscribe for shares in the company (see Note 17). Under the agreement, TAP is potentially entitled to receive a payment equivalent to amounts received by Mereo (up to a maximum of $400,000) conditional on and within thirty days of the first regulatory approval received by the Group for MPH-966.

The first payment ("Payment 1") of $100,000 (£78,445) was made to Mereo on November 16, 2018. The fair value of the liability of Payment 1 on November 16, 2018 was £34,289. Application of the effective interest method is required to accrete the initial liability value up to the face value of the liability over a period of five years, being the estimate of the earliest date that the liability could be repaid and assuming that the agreement is not terminated earlier. This non-cash interest charge will be made in each statutory reporting period. The annual value of this interest charge is 25.8%.

The fair value of warrants issued as part of Payment 1 on November 16, 2018 was £44,156.

The total carrying value of the liability at December 31, 2018 was £34,289. £34,289 is a non-current liability.

22. Trade and other payables

	Year ended December 31, 2018 £	Year ended December 31, 2017 £
Trade payables	**4,392,602**	2,860,303
Social security and other taxes	**160,719**	144,348
Other payables	**16,986**	19,375
	4,570,307	3,024,026

Terms and conditions of the above financial liabilities:

- trade payables are non-interest bearing and are normally settled on 30-day terms; and
- other payables are non-interest bearing and have an average term of one month.

23. Changes in liabilities arising from financing activities

	Bank loan £	Novartis Notes £	Warrant liability £	Deferred cash consideration £	TAP agreement £	Total £
January 1, 2018	18,774,924	1,977,393	1,346,484	2,061,000	—	24,159,801
Cash						
Net increase in bank loan	455,000	—	—	—	—	455,000
Increase in TAP funding					34,829	34,829
Interest payments	(1,644,610)	—	—	—	—	(1,644,610)
Bank loan transaction costs	(920,859)	—	—	—	—	(920,859)
Non-cash						
Bank modification loss	730,037	—	—	—	—	730,037
Fair value of additional warrants	(375,344)	—	—	70,000	—	(305,344)
Increase in warrant liability	—	—	375,344	—	—	375,344
Novartis Notes – amounts restated through retained earnings	—	(123,864)	—	—	—	(123,864)
Change in fair value warrant	—	—	(716,215)	—	—	(716,215)
Provision for deferred cash consideration	—	—	—	—	—	—
Interest accrual	1,644,610	—	—	—	—	1,644,610
Accreted interest	781,998	185,352	—	—	—	967,350
December 31, 2018	**19,445,756**	**2,038,881**	**1,005,613**	**2,131,000**	**34,289**	**24,655,539**

24. Financial and capital risk management and fair value measurement

24.1. Capital risk management

For the purpose of the Group's capital management, capital includes issued capital, share premium, the equity component of a convertible loan note and all other equity reserves attributable to the equity holders of the parent.

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and ensure that sufficient capital is in place to fund the Group's R&D activities. The Group's principal method of adjusting the capital available is through issuing new shares or arranging suitable debt financing, including any related warrants. The Group's share capital and share premium are disclosed in Note 17. The Group's loans are disclosed in Note 18. The Group monitors the availability of capital with regard to its committed and planned forecast future expenditure on an ongoing basis.

The Group has set up an Employee Benefit Trust which makes market purchases of the Company's shares to provide some cover against future exercise of options under the Company's share option schemes (see Note 27).

24.2. Financial risk management objectives and policies

Monitoring of financial risk is part of the Board's ongoing risk management, the effectiveness of which is reviewed annually. Our agreed policies are implemented by the Chief Financial Officer, who submits periodic reports to the Board. The Group seeks to maintain a balance between equity capital and convertible and secured debt to provide sufficient cash resources to execute the business plan. In addition, the Group maintains a balance between cash held on deposit and short-term investments in Sterling and other currencies to reduce its exposure to foreign exchange fluctuations in respect of its planned expenditure. During the year, in order to maintain a strong cash runway the Group completed an equity placing and arranged and drew down a new bank debt facility, which includes an initial interest-only period until September 2018.

Except for the bank loans and the existing convertible loan notes issued in 2016, the Group's principal financial instruments comprise trade payables which arise directly from its operations and are not designed as a means of raising finance for the Group's operations. The Group has various financial assets, such as receivables and cash and short-term deposits. The Group does not consider that its financial instruments gave rise to any material financial risks during the year to December 31, 2018.

Interest rate risk

The Group's policy in relation to interest rate risk is to monitor short and medium-term interest rates and to place cash on deposit for periods that optimize the amount of interest earned while maintaining access to sufficient funds to meet day-to-day cash requirements.

The interest payable on both the convertible loan note and bank loan is fixed. Consequently, there is no material exposure to interest rate risk in respect of interest payable.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

24. Financial and capital risk management and fair value measurement continued

24.2. Financial risk management objectives and policies continued

Foreign currency risk

The Group currently has no revenue. The majority of operating costs are denominated in Sterling, Euros and U.S. Dollars (USD). Funding to date has been secured in a mixture of Sterling and USD (in respect of funding attributable to the merger with OncoMed) and therefore a level of natural hedging exists in respect of operating costs. Foreign exchange risk arises from commercial transactions and recognized assets and liabilities in foreign currencies.

Credit risks

The Group's policy is to place funds with financial institutions which have a minimum long-term credit rating with Standard & Poor's of A. The Group also allocates a quota to individual institutions in respect of cash deposits and also seeks to diversify its investments where this is consistent with achieving competitive rates of return. It is the Group's policy to place not more than £10 million with any one investment counterparty and no more than £5 million with any one cash deposit counterparty.

Cash flow and liquidity risk

Credit risk from balances with banks and financial institutions is managed by the Group's finance department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Audit and Risk Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Group's maximum exposure to credit risk for the components of the balance sheet at December 31, 2018 is the carrying amounts.

The Group monitors its funding requirements through preparation of short-term, mid-term and long-term forecasts. All short-term deposits are immediately convertible to liquid funds without penalty and are recorded in the balance sheet at their open market value. Please refer to Note 2.3 "Going concern" regarding the directors' assessment of liquidity for further information.

24.3. Fair value hierarchy

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities measured at fair value					
Provision for deferred cash consideration (Note 19)	December 31, 2018	£2,131,000	—	—	£2,131,000
Warrant liability (Note 20)	December 31, 2018	£1,005,613	—	—	£1,005,613
Liabilities for which fair values are disclosed					
Convertible loan (Note 18a)	December 31, 2018	£2,038,881	—	—	£2,038,881
Bank loan (Note 18b)	December 31, 2018	£19,445,756	—	—	£19,445,756
TAP funding liability (Note 21)	December 31, 2018	£34,289	—	—	£34,289

There were no transfers between Level 1 and Level 2 during 2018.

Fair value measurement hierarchy for liabilities as at December 31, 2017:

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities measured at fair value					
Provision for deferred cash consideration (Note 19)	December 31, 2017	£2,061,000	—	—	£2,061,000
Warrant liability (Note 20)	December 31, 2017	£1,346,484	—	—	£1,346,484
Liabilities for which fair values are disclosed					
Convertible loan (Note 18a)	December 31, 2017	£1,977,393	—	—	£1,977,393
Bank loan (Note 18b)	December 31, 2017	£18,774,924	—	—	£18,774,924

There were no transfers between Level 1 and Level 2 during 2017.

24. Financial and capital risk management and fair value measurement continued

24.3. Fair value hierarchy continued

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments:

	December 31, 2018		December 31, 2017	
	Carrying amount £	**Fair value £**	Carrying amount £	Fair value £
Liabilities				
Provision for deferred cash consideration	**2,131,000**	**2,131,000**	2,061,000	2,061,000
Warrant liability	**1,005,613**	**1,005,613**	1,346,484	1,346,484

The management of the Group assessed that the fair values of cash and short-term deposits, other receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- The fair value of the provision for deferred cash consideration is estimated by discounting future cash flows using rates currently available for debt on similar terms and credit risk. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the deferred cash consideration is also sensitive to a reasonably possible change in the probability of reaching certain milestones. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.
- The warrant liability is estimated using the Black Scholes model taking into account appropriate amendments to inputs in respect of volatility, remaining expected life of the warrants, cost of capital, probability of success and rates of interest.

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at December 31, 2018 and 2017 are as shown below:

	Valuation technique	Significant unobservable inputs	Range weighted (average)	Sensitivity of the input to fair value
Provision for deferred cash consideration	DCF	WACC	2018: 15.3%	1% increase/(decrease) would result in a decrease/(increase) in fair value by £33,000
		WACC	2017: 15.3%	1% increase/(decrease) would result in a decrease/(increase) in fair value by £30,000
		Probability of success	2018: 28%–95%	10% increase/(decrease) would result in an increase/(decrease) in fair value by £600,000
		Probability of success	2017: 28%–85%	10% increase/(decrease) would result in an increase/(decrease) in fair value by £600,000
Warrant liability	Black Scholes	Risk-free interest rate	2018: 1.33%	1% increase/(decrease) would result in an increase/(decrease) of £25,000
		Risk-free interest rate	2017: 1.25%	1% increase/(decrease) would result in an increase/(decrease) of £46,000
		Volatility	2018: 65%	10% increase/(decrease) would result in an increase/(decrease) of £145,000
		Volatility	2017: 50%	10% increase/(decrease) would result in an increase/(decrease) of £200,000
		Remaining life	2018: 3,254 days	Increase/(decrease) of 365 days would result in an increase/(decrease) of £56,000
		Remaining life	2017: 3,519 days	Increase/(decrease) of 365 days would result in an increase/(decrease) of £54,000

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

24. Financial and capital risk management and fair value measurement continued

24.3. Fair value hierarchy continued

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments at December 31, 2018:

	Payments due by period				
	Up to 1 year £	**1–3 years £**	**3–5 years £**	**Over 5 years £**	**Total £**
Novartis Notes	**82,600**	**2,161,642**	**—**	**—**	**2,244,242**
Bank loan	**8,260,337**	**15,589,137**	**—**	**—**	**23,849,474**
Operating lease (see Note 26)	**331,527**	**204,138**	**—**	**—**	**535,665**
	8,674,464	**17,954,917**	**—**	**—**	**26,629,381**

The table below summarizes our contractual obligations at December 31, 2017:

	Payments due by period				
	Up to 1 year £	1–3 years £	3–5 years £	Over 5 years £	Total £
Novartis Notes	82,600	165,427	2,078,815	—	2,326,842
Bank loan	3,574,208	17,793,665	2,982,805	—	24,350,678
Operating lease (see Note 26)	743,858	535,203	—	—	1,279,061
	4,400,666	18,494,295	5,061,620	—	27,956,581

The Group may incur potential payments upon achievement of clinical, regulatory and commercial milestones, as applicable, or royalty payments that may be required to be made under license agreements the Group entered into with various entities pursuant to which the Group has in-licensed certain intellectual property, including license agreements with Novartis and AstraZeneca. Due to the uncertainty of the achievement and timing of the events requiring payment under these agreements, the amounts to be paid are not fixed or determinable at this time.

25. Share-based payments

The charge for share-based payments under IFRS 2 arises across the following schemes:

	Year ended December 31, 2018	Year ended December 31, 2017
2015 Plan	**805,738**	2,441,671
Mereo BioPharma Group plc Share Option Plan	**1,064,217**	586,291
Long Term Incentive Plan	**319,338**	298,287
Deferred Bonus Share Plan	**—**	325,649
	2,189,293	3,651,898

The 2015 Plan

Under the Mereo BioPharma Group Limited Share Option Plan (the "2015 Plan"), the Group, at its discretion, granted share options to employees, including executive management and NEDs. Share options vest over four years for executive management and employees and over three years for NEDs. There are no performance conditions attached to the options issued under the Option Plan. The fair value of share options granted was estimated at the date of grant using a Black Scholes pricing model, taking into account the terms and conditions upon which the share options were granted. The fair value calculation does not include any allowance for dividends as the Company has no available profits for distribution.

The exercise price of the share options will be equal to the market price of the underlying shares on the date of grant, less a discount agreed with the Group's institutional investors. The contractual term of the share options is ten years.

No share options were issued during the year under the 2015 Share Plan.

25. Share-based payments continued

The 2015 Plan continued

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, options for the 2015 Plan during the year:

	2018		2017	
	Number	WAEP £	Number	WAEP £
Outstanding at beginning of the year	**9,124,610**	**1.32**	9,198,655	1.32
Granted during the year	**—**	**—**	—	—
Cancelled during the year	**—**	**—**	—	—
Forfeited during the year	**(46,255)**	**1.29**	(74,045)	1.29
Exercised during the year	**(95,222)**	**1.29**	—	—
Outstanding at December 31	**8,983,133**	**1.32**	9,124,610	1.32
Exercisable at December 31	**8,007,029**	**1.31**	5,655,676	1.31

The weighted average remaining contractual life for the share options outstanding as at December 31, 2018 was 6.6 years (2017: 7.6 years).

There were no options granted in 2017.

Options outstanding at the end of the year had an exercise price of between £1.29 and £2.21.

The Mereo BioPharma Group plc Share Option Plan

The Mereo BioPharma Group plc Share Option Plan ("Share Option Plan") provides for the grant of options to acquire our ordinary shares to employees, executive directors and executive officers. Options may be granted to all eligible employees on commencement of employment and may be granted on a periodic basis after that. Under the Share Option Plan, our Board of directors may determine if the vesting of an option will be subject to the satisfaction of a performance condition. With regard to an option which is subject to satisfaction of a performance condition, the option will normally vest on the later of: (i) the date on which our Board of directors determines that the performance condition has been satisfied; and (ii) the third anniversary of the date of grant. With regard to an option which is not subject to the satisfaction of a performance condition, the option will normally vest on the third anniversary of the date of grant, or such other date determined by our Board of directors and notified to the participant. Once an option has vested, it may be exercised during the period ending on the tenth anniversary of the date of grant, after which time it will lapse. The exercise price of an option may not be less than the greater of: (i) the market value of a share on the date of grant; or (ii) if the shares are to be subscribed, the nominal value of a share. Options are not currently subject to performance conditions other than continued service with us and typically vest on the third anniversary of the date of grant, after which they remain exercisable generally until the tenth anniversary of the grant date. Our Board of directors may determine that an option be settled in cash or by net exercise of the option.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, options for the Option Plan during the year:

	2018		2017	
	Number	WAEP £	Number	WAEP £
Outstanding at beginning of the year	**1,578,188**	**3.05**	—	—
Granted during the year	**388,000**	**3.14**	1,593,188	3.05
Cancelled during the year	**—**	**—**	—	—
Forfeited during the year	**(84,633)**	**3.03**	(15,000)	3.03
Outstanding at December 31	**1,881,555**	**3.10**	1,578,188	3.05
Exercisable at December 31	**—**	**—**	—	—

The weighted average remaining contractual life for the share options outstanding as at December 31, 2018 was 8.6 years (2017: 9.4 years).

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

25. Share-based payments continued

The Mereo BioPharma Group plc Share Option Plan continued

Movements during the year continued

The weighted average fair value of options granted during the year was £2.29 (2017: £1.85).

Options outstanding at the end of the year had an exercise price of between £2.76 and £3.23.

The following tables list the weighted average inputs to the models used for the fair value of share options granted during the years ended December 31:

	Year ended December 31, 2018	Year ended December 31, 2017
Expected volatility (%)	**65–67**	49–51
Risk-free interest rate (%)	**1.39–1.53**	1.06–1.33
Expected life of share options (years)	**10**	10
Market price of ordinary shares (£)	**2.76–3.25**	3.03–3.23
Model used	**Black Scholes**	Black Scholes

Since there is no historical data in relation to the expected life of the share options, the contractual life of the options was used in calculating the expense for the year.

Volatility was estimated by reference to the share price volatility of a group of comparable companies over a retrospective period equal to the expected life of the share options.

Long Term Incentive Plan

Under the Company's Long Term Incentive Plan (LTIP), initiated in 2016, the Group, at its discretion, may grant nil-cost options to acquire shares to employees. Under the LTIP rules, vesting of 75% of the options issued to employees is subject to a share price performance condition (the "Share Price Element") and vesting of 25% of the options is subject to achievement of strategic operational targets (the "Strategic Element"). Share options vest over a maximum of five years, dependent upon achievement of these targets.

The fair value of the LTIP Share Price Element is estimated at the date of grant using a Monte Carlo pricing model, taking into account the terms and conditions upon which the share options were granted.

The fair value of the LTIP Strategic Element is estimated at the date of grant using a Black Scholes pricing model, taking into account the terms and conditions upon which the share options were granted, and the expense recorded is based upon the expected level of achievement of strategic targets.

The fair value calculations do not include any allowance for dividends as the Company has no available profits for distribution.

The contractual term of the LTIP options is five years.

The expense recognized for employee services received during the year to December 31, 2018 was £319,338 (2017: £298,287).

Movements during the year

The following table illustrates the number of, and movements in, LTIP options during the year:

	2018 Number	2017 Number
Granted during the year	**—**	185,950
Cancelled during the year	**—**	—
Forfeited during the year	**—**	—
Outstanding at December 31	**1,151,446**	1,151,446
Exercisable at December 31	**—**	—

The weighted average remaining contractual life for the LTIP options outstanding as at December 31, 2018 was 1.8 years (2017: 2.9 years).

The weighted average fair value of LTIP options granted during the year to December 31, 2018 was £nil (2017: £1.99).

25. Share-based payments continued

Long Term Incentive Plan continued

Movements during the year continued

The following tables list the weighted average inputs to the models used for the fair value of LTIP options granted during the years ended December 31:

LTIP Share Price Element

	Year ended December 31, 2018	Year ended December 31, 2017
Expected volatility (%)	—	51.7
Risk-free interest rate (%)	—	0.17–0.39
Expected life of share options (years)	—	3–5
Market price of ordinary shares (£)	—	3.03
Model used	—	Monte Carlo

LTIP Strategic Element

	Year ended December 31, 2018	Year ended December 31, 2017
Expected volatility (%)	—	51.7
Risk-free interest rate (%)	—	0.39
Expected life of share options (years)	—	5
Market price of ordinary shares (£)	—	3.03
Model used	—	Black Scholes

Since there is no historical data in relation to the expected life of the LTIP options, the contractual life of the options has been used in calculating the expense for the year.

Volatility is estimated by reference to the share price volatility of a group of comparable companies over a retrospective period equal to the expected life of the LTIP options.

Deferred Bonus Share Plan

Under the previous terms of the Company's Deferred Bonus Share Plan (DBSP), 30% of the annual bonus for 2017 for the senior management team was payable in deferred shares, which are governed by the DBSP plan rules. At the date of grant of the awards, the monetary bonus amount will be divided by the closing share price to give the number of shares issued to the employee under the DBSP. The number of shares is fixed and not subject to adjustment between the issue date and vesting date. Under the DBSP, awards vest after three years from the date of the award. There are no further performance conditions attached to the award, nor any service conditions (including no requirement for continued employment once the awards have been made). The plan does allow for adjustment of awards in the event of a material misstatement of Mereo's accounts or fraud or misconduct on the part of an individual. The plan also allows for adjustment of awards in the event there was an error in calculating the vesting of the awards. Since the awards are issued at nil cost they will be satisfied by the issue of shares from the Employee Benefit Trust.

The following table illustrates the number of, and movements in, DBSP options during the year:

	2018 Number	2017 Number
Outstanding at January 1	**163,000**	62,180
Awarded during the year	—	100,820
Granted during the year	—	—
Outstanding at December 31	**163,000**	163,000
Exercisable at December 31	—	—

The weighted average remaining contractual life for the DBSP options outstanding as at December 31, 2018 was 2.6 years (2017: 3.6 years).

The weighted average fair value of DBSP options granted during the year was £nil (2017: £3.23).

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

25. Share-based payments continued

Deferred Bonus Share Plan continued

On January 18, 2019 the Board approved an amendment to the terms of the Deferred Bonus Share Plan and the terms were amended such that in the event that the Board decides to award a bonus to eligible participants in respect of performance for any given financial year, 30% of the bonus (after deduction of income tax and employee's National Insurance contributions) must be used to purchase ordinary shares in the Company within 12 months. Following a purchase, the relevant ordinary shares must be held for a period of at least two years. Bonus awards made in respect of 2018 were awarded under these revised terms.

The Mereo 2019 Equity Incentive Plan (The 2019 EIP)

On April 4, 2019 the Company established The Mereo 2019 Equity Incentive Plan. Under the plan it is anticipated that market value options will be granted to executives and other employees with a four-year vesting period and no performance conditions. No grants have been made under this plan as at the date of this report. The plan provides a framework for the grant of market value options and/or restricted stock unit awards to officers of the Company (or of any subsidiary).

The Mereo 2019 NED Equity Incentive Plan (The 2019 NED EIP)

On April 4, 2019 the Company established The Mereo 2019 NED Equity Incentive Plan. Under the plan it is anticipated that market value options will be granted to non-executive directors with no performance conditions. Options to existing non-executive directors will be granted with a one-year vesting period and options to newly appointed non-executive directors will be granted with a three-year vesting period. No grants have been made under this plan as at the date of this report. The plan provides a framework for a range of different types of share related awards (including market value options, share appreciation rights, restricted stock and restricted stock units).

Deferred equity consideration

In October 2017, our wholly owned subsidiary Mereo BioPharma 4 Limited entered into an exclusive license and option agreement (the "License Agreement"), to obtain from AstraZeneca an exclusive worldwide, sub-licensable license under AstraZeneca's intellectual property rights relating to MPH-966, with an option to acquire such intellectual property rights following commencement of a pivotal trial and payment of related milestone payments (the "Option"), together with the acquisition of certain related assets.

Under the agreement with AstraZeneca, the Company may issue up to 1,349,693 ordinary shares which are dependent on achieving certain milestones.

In respect of milestones that are probable, the Group has accounted for, but not yet issued, 429,448 ordinary shares which have been measured at fair value, being £3.10, giving a total of £1,331,288.

26. Commitments and contingencies

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancelable operating leases as at December 31, 2018 are as follows:

	December 31, 2018 £	December 31, 2017 £
Within one year	**331,527**	743,858
After one year but not more than three years	**204,138**	535,203
After one year but not more than five years	**—**	—
More than five years	**—**	—
	535,665	1,279,061

The Group has entered into a lease for its premises at Fourth Floor, 1 Cavendish Place, London W1G 0QF. The term of the lease agreement is from August 17, 2015 through to August 16, 2025. The total lease expense for the year ended December 31, 2018 was £293,328 (2017: £293,328).

The premises comprise approximately 4,000 sq ft. The principal rent for the premises is £162,960 per annum through December 16, 2016 and £325,920 per annum thereafter, subject to an increase on August 17, 2020 based on the open market value of the premises (the "Principal Rent"). In addition to the Principal Rent, the Group is responsible for value-added tax on the Principal Rent and certain insurance costs and service charges incurred by the landlord.

The Group may break the lease agreement on August 16, 2020 by providing six months' prior written notice to the landlord. If the Group does not exercise its break option, the landlord will decrease by 50% the Principal Rent for the period from August 16, 2020 through to April 15, 2021.

26. Commitments and contingencies continued

Operating lease commitments – Group as lessee continued

The Group has entered into a lease for six high resolution peripheral quantitative computed tomography (HRpQCT) scanners for use in its ongoing clinical studies.

Each scanner has a lease term of 12 months from the date on which delivery of that scanner occurred. The Company has the right to extend the lease period for a further six months at any point during the lease term. This option may be exercised in respect of any of the individual scanners and does not have to be exercised in respect of all the scanners.

Finance leases – Group as lessee

The Group did not have any leasing arrangements classified as finance leases at December 31, 2018 (2017: £nil).

Financial commitments

Each of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited and Mereo BioPharma 3 Limited issued to Novartis loan notes (the "Novartis Notes") (which were assigned by Novartis to the Company in exchange for ordinary shares pursuant to the Subscription Agreement) and each of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited and Mereo BioPharma 3 Limited agreed to make future payments to Novartis comprising amounts equal to ascending specified percentages of tiered annual worldwide net sales (beginning at high single digits and reaching into double digits at higher sales) by such subsidiary of products that include the assets acquired. The levels of ascending percentages of tiered annual worldwide net sales are the same for each of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited and Mereo BioPharma 3 Limited under the respective Purchase Agreements.

Each of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited and Mereo BioPharma 3 Limited further agreed that in the event it transfers, licenses, assigns or leases all or substantially all of its assets, it will pay Novartis a percentage of the proceeds of such transaction. The Company will retain the majority of the proceeds from such a transaction. Such percentage is the same for each of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited and Mereo BioPharma 3 Limited under the respective Purchase Agreements. The payment of a percentage of proceeds is not payable with respect to any transaction involving equity interests of Mereo BioPharma Group plc, a merger or consolidation of Mereo BioPharma Group plc, or a sale of any assets of Mereo BioPharma Group plc.

In October 2017, the Group's wholly owned subsidiary Mereo BioPharma 4 Limited entered into an exclusive license and option agreement ("the License Agreement"), to obtain from AstraZeneca an exclusive worldwide, sub-licensable license under AstraZeneca's intellectual property rights relating to MPH-966, with an option to acquire such intellectual property rights following commencement of a pivotal trial and payment of related milestone payments ("the Option"), together with the acquisition of certain related assets. Upon entering into the License Agreement, the Group made a payment of $3.0 million and issued 490,798 ordinary shares to AstraZeneca, for an aggregate upfront payment equal to $5.0 million. In connection with certain development and regulatory milestones, the Group has agreed to make payments of up to $115.5 million in the aggregate and issue additional ordinary shares to AstraZeneca for licensed products containing MPH-966. In addition, the Group has agreed to make payments to AstraZeneca based on specified commercial milestones of the product. The Group has also agreed to pay a specified percentage of sub-licensing revenue to AstraZeneca and to make royalty payments to AstraZeneca equal to ascending specified percentages of tiered annual worldwide net sales by the Group of licensed products (subject to certain reductions), ranging from the high single digits to low double digits. Royalties will be payable on a licensed-product-by-licensed-product and country-by-country basis until the later of ten years after the first commercial sale of such licensed product in such country and expiration of the last patent covering such licensed product in such country that would be sufficient to prevent generic entry. Under the License Agreement, the Group may freely grant sub-licenses to affiliates upon notice to AstraZeneca and must obtain AstraZeneca's consent, which is not be unreasonably withheld, to grant sub-licenses to a third party. The Group has agreed to use commercially reasonable efforts to develop and commercialize at least one licensed product.

The License Agreement will expire on the expiry of the last-to-expire royalty term with respect to all licensed products. Upon the expiration of the royalty term for a licensed product in a particular country, the licenses to the Group for such product in such country will become fully paid and irrevocable. Prior to exercise of the Option, if at all, the Group may terminate the License Agreement upon prior written notice. Either party may terminate the agreement upon prior written notice for the other party's material breach that remains uncured for a specified period of time or insolvency. AstraZeneca has agreed to a three-year non-competition restriction in relation to the direct or indirect commercialization or development of NE inhibitors for the treatment of AATD. In addition, AstraZeneca agreed not to assert any AstraZeneca intellectual property rights that were included in the scope of the License Agreement against the Group.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

27. Related party disclosures

The following transactions have been entered into with related parties for the year ended December 31, 2017 and 2018.

Novartis Pharma AG ("Novartis") holds shares in the Company at December 31, 2016. On June 3, 2016, the Group issued 3,463,563 £1 unsecured convertible loan notes (the "Novartis Notes") to Novartis and received £3,463,563 from Novartis in consideration (Note 18a).

The Group purchased goods and services from Novartis in the year as set out below:

	December 31, 2018 £	December 31, 2017 £
Manufacture and supply of clinical trial material	**60,027**	4,610,106

The amount outstanding to be paid to Novartis at December 31, 2018 was £nil (2017: £nil).

The purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

Employee Benefit Trust

In 2016 the Company set up an Employee Benefit Trust for the purposes of buying and selling shares on the employees' behalf. A total of £325,000 of funding was paid into the Trust by the Company during the year ended December 31, 2018 (2017: £nil).

A total of 163,000 shares were purchased by the Trust during the year ended December 31, 2018 (2017: nil). As at December 31, 2018 a cash balance of £21,762 (2017: £3,600) was held by the Trust.

28. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Other standards

The following standards and interpretations, applicable for annual periods beginning on or after January 1, 2017, are not expected to have any impact on the results of the Group or the presentation of the financial statements:

- IFRS 10 Consolidated Financial Statements – Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture and amendments regarding the application of the consolidation exception.
- IFRS 11 Joint Arrangements – Amendments regarding the accounting for acquisitions of an interest in a joint operation.
- IFRS 12 Disclosure of Interests in Other Entities – Amendments regarding the application of the consolidation exception.
- IFRS 14 Regulatory Deferral Accounts.
- IAS 1 Presentation of Financial Statements – Amendments resulting from the disclosure initiative.
- IAS 7 Statement of Cash Flows – Amendments resulting from the disclosure initiative.
- IAS 12 Income Taxes – Amendments to recognition of deferred tax assets for unrealized losses.
- IAS 16 Property, Plant and Equipment – Amendments regarding the clarification of acceptable methods of depreciation and amortization and amendments bringing bearer plants into the scope of IAS 16.
- IAS 27 Separate Financial Statements (as amended in 2011) – Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
- IAS 28 Investments in Associates and Joint Ventures – Amendments regarding the application of the consolidation exception.
- IAS 38 Intangible Assets – Amendments regarding the clarification of acceptable methods of depreciation and amortization.
- IAS 41 Agriculture – Amendments bringing bearer plants into the scope of IAS 16.
- Amendments resulting from September 2014 Annual Improvements to IFRSs:
  - IFRS 2 Classification and Measurement of Share-based Payment Transactions.
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
  - IFRS 7 Financial Instruments: Disclosures.
  - IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.
  - IAS 19 Employee Benefits.
  - IAS 34 Interim Financial Reporting.

29. Event after the reporting period

On February 8, 2019, Dr. Frank Armstrong resigned as a non-executive director of the Group.

On April 23, 2019 the Group agreed an amendment to the terms of its bank loan with the lenders. The new terms extended the interest-only period to December 31, 2019 followed by a 15-month capital and interest repayment period. The Group has undertaken a preliminary assessment under IFRS 9 and determined it to be a non-substantial modification. Following completion of the merger with OncoMed, under the terms of the loan agreement, Mereo expects to issue approximately 321,444 additional warrants to its lenders giving them the right to subscribe for ordinary shares at an exercise price of £2.95.

On April 23, 2019, Mereo completed the acquisition of OncoMed, a clinical-stage biopharmaceutical company whose shares were previously traded on Nasdaq. Mereo acquired 100% of the voting equity interests declared, and OncoMed will continue as a wholly owned indirect subsidiary of Mereo. The Mereo Board believes that the combination of Mereo's biopharmaceutical portfolio of four assets with OncoMed's two lead assets will create a diversified combined portfolio, resulting in an increased number of potential near-term catalysts with a core focus remaining on Mereo's strategy to target rare diseases, and that the cash position of the combined Company will provide an extended operational runway, with the potential for such runway to be extended significantly further through partnering deals.

The initial consideration for the purchase amounted to £40.9 million in the form of 24.8 million ordinary shares. The fair value of the ordinary shares issued as part of the consideration paid for OncoMed was measured using the closing market price of Mereo's ordinary shares at the acquisition date. Further amounts may be payable to the former owners of OncoMed governed by the terms of an agreed Contingent Value Rights (CVR) agreement. The CVR represents the non-transferable contractual right for previous shareholders in OncoMed to receive certain share and cash payments from Mereo if specified milestones are achieved within agreed time periods. The CVR milestone relates to OncoMed's etigilimab (anti-TIGIT, OMP-313M32) and navicixizumab (anti-DLL4/VEGF, OMP-305B83) therapeutic candidates. The contingent payments become payable upon the achievement of the milestones as follows:

The TIGIT milestone

A payment, in the form of Mereo ADSs, will be made to CVR holders if, prior to December 31, 2019, the following milestone is achieved:

- Celgene exercises the exclusive option granted by OncoMed to Celgene in relation to OncoMed's OMP-313M32 product pursuant to the Master Research and Collaboration Agreement by and among Celgene and OncoMed, dated December 2, 2013; and
- the receipt by OncoMed of the initial $35 million cash milestone payment due from Celgene pursuant to such Celgene option exercise.

If the TIGIT milestone is achieved, holders of CVRs would be entitled to receive a number of Mereo ADSs equal to the $35 million cash milestone payment received net of any tax and other reasonable expenses, divided by the volume-weighted average price per Mereo ADS for the ten trading day period immediately following the date of the announcement by Mereo of the receipt of such cash payment. The TIGIT milestone payment is subject to a share consideration cap, such that the number of Mereo shares underlying the Mereo ADSs to be issued pursuant to the CVR agreement, when aggregated with the number of Mereo shares underlying the Mereo ADSs issued as share consideration pursuant to the merger agreement, cannot exceed 40% of the enlarged Group after issuing the consideration shares.

The NAVI milestones

A cash payment will be made to CVR holders if, within 18 months following the closing of the merger, Mereo or any of its subsidiaries enters into a definitive agreement with one or more third parties regarding the OMP-305B83 products and, within five years of the closing of the merger, Mereo or any of its subsidiaries receives eligible cash milestone payments. If a NAVI milestone is achieved, holders of CVRs would be entitled to receive an amount in cash equal to 70% of the amount of such eligible cash milestone payment, net of any tax and other reasonable expenses. The NAVI milestone payments are subject to a cash consideration cap, pursuant to which the aggregate principal amount of all cash payments made to holders of CVRs by Mereo shall in no case exceed $79.7 million.

At this time we have estimated that the fair value of the deferred consideration is immaterial and have not provided for any amount payable.

We are finalizing the purchase price allocation and have determined a preliminary estimate of the fair value of the intangible assets acquired of £14.5 million. We acquired cash and cash equivalents, and short term investments at completion of $50.8 million.

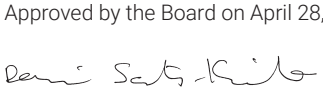
We are finalizing the valuation of other assets and liabilities which will determine the amount of goodwill to be recognized. This will be disclosed in our interim financial statements for the period ending June 30, 2019.

COMPANY BALANCE SHEET AS AT DECEMBER 31, 2018

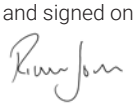
The company's profit and loss account has been approved by the Board of Directors but Mereo have taken advantage of the exemption under Section 408 of the Companies Act 2006 to exclude this from the Annual report.

	Notes	December 31, 2018 £	December 31, 2017 £
Assets			
Non-current assets			
Property, plant and equipment	6	**148,935**	153,361
Investments	4	**123,374,086**	97,104,623
Amounts owed by Group undertakings	5	**—**	1,331,288
		123,523,021	98,589,272
Current assets			
Prepayments		**1,066,932**	1,970,780
Other receivables	7	**630,655**	509,350
Short-term investments	9	**2,500,000**	2,500,000
Cash and short-term deposits	8	**25,020,183**	50,044,672
Amounts owed by Group undertakings	5	**—**	6,355,111
		29,217,770	61,379,913
Current liabilities			
Trade and other payables	14	**4,570,307**	3,024,026
Accruals		**4,437,321**	4,379,774
Interest-bearing loans and borrowings	11	**6,837,884**	1,939,806
		15,845,512	9,343,606
Net current assets		**13,372,258**	52,036,307
Total assets less current liabilities		**136,895,279**	150,625,579
Non-current liabilities			
Provisions	12	**842,367**	2,288,386
Interest-bearing loans and borrowings	11	**14,646,753**	18,812,511
Warrant liability	13	**1,005,613**	1,346,484
Amounts owed to Group undertakings		**—**	152,401
Other liabilities		**34,289**	—
		16,529,022	22,599,782
Net assets		**120,366,257**	128,025,797
Equity shareholders' funds			
Share capital	10	**213,721**	213,285
Share premium	10	**118,492,073**	118,226,956
Other capital reserves	10	**18,592,618**	16,359,169
Other reserves	10	**7,000,000**	7,000,000
Employee Benefit Trust shares		**(306,838)**	—
Losses brought forward		**(13,649,748)**	(3,968,771)
Loss for the year		**(9,975,569)**	(9,867,217)
Adjustment to losses upon conversion of convertible loan note		**—**	62,375
		(23,625,317)	(13,773,613)
Total equity shareholders' funds		**120,366,257**	128,025,797

Approved by the Board on April 28, 2019 and signed on its behalf by:



Dr Denise Scots-Knight
Director



Richard Jones
Director

Company number: 9481161 (England and Wales)

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

	Issued capital £	Share premium £	Other capital reserves £	Employee Benefit Trust £	Other reserves £	Accumulated losses £	Total equity £
At December 31, 2016	193,022	99,975,399	12,667,562	—	7,000,000	(3,968,771)	115,867,212
Loss for the year to December 31, 2017	—	—	—	—	—	(9,867,217)	(9,867,217)
Share-based payments – share options (Note 15)	—	—	3,027,963	—	—	—	3,027,963
Share-based payments – LTIPs (Note 15)	—	—	298,287	—	—	—	298,287
Share-based payments – deferred bonus shares (Note 15)	—	—	325,648	—	—	—	325,648
Share-based payments – deferred equity consideration (Note 15)	—	—	1,331,288	—	—	—	1,331,288
Issue of share capital on April 4, 2017 (Note 10)	15,125	14,984,875	—	—	—	—	15,000,000
Issue of share capital on conversion of loan note (Note 10)	1,899	1,396,654	—	—	—	—	1,398,553
Issue of share capital for Novartis bonus shares (Note 10)	1,766	1,081,133	(1,082,899)	—	—	—	—
Equity element of convertible loan (Note 10)	—	—	(208,680)	—	—	—	(208,680)
Conversion of convertible loan (Note 10)	—	—	—	—	—	62,375	62,375
Issue of share capital on October 31, 2017 (Note 10)	1,473	1,518,527	—	—	—	—	1,520,000
Transaction costs on issuance of share capital (Note 10)	—	(729,632)	—	—	—	—	(729,632)
At December 31, 2017	213,285	118,226,956	16,359,169	—	7,000,000	(13,773,613)	128,025,797
Loss for the year to December 31, 2018	—	—	—	—	—	(9,975,569)	(9,975,569)
Adoption of IFRS 9	—	—	—	—	—	123,865	123,865
Share-based payments – share options (Note 15)	—	—	1,869,955	—	—	—	1,869,955
Share-based payments – LTIPs (Note 15)	—	—	319,338	—	—	—	319,338
Issue of share capital on June 1, 2018 (Note 10)	150	150,078	—	—	—	—	150,228
Issue of share capital on August 3, 2018 on exercise of options (Note 10)	30	12,870	—	—	—	—	12,900
Issue of share capital on October 22, 2018 on exercise of options (Note 10)	256	109,680	—	—	—	—	109,936
Issue of warrants for TAP agreement (Note 10)	—	—	44,156	—	—	—	44,156
Transaction costs on issuance of share capital (Note 10)	—	(7,511)	—	—	—	—	(7,511)
Purchase of treasury shares	—	—	—	(306,838)	—	—	(306,838)
At December 31, 2018	**213,721**	**118,492,073**	**18,592,618**	**(306,838)**	**7,000,000**	**(23,625,316)**	**120,366,257**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Significant accounting policies

1.1 Basis of preparation

The Company has transitioned from IFRS, as adopted by the E.U., to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) for all periods presented.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the E.U. ("Adopted IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to:

- paragraphs 45(b) and 46–52 of IFRS 2 Share-based Payment;
- IFRS 7 Financial Instruments: Disclosures;
- paragraphs 91–99 of IFRS 13 Fair Value Measurement;
- paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- paragraphs 10(d), 10(f), 39(c) and 134–136 of IAS 1;
- IAS 7 Statement of Cash Flows;
- paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- paragraphs 134(d)–134(f) and 135(c)–135(e) of IAS 36 Impairment of Assets.

These financial statements are prepared in Sterling.

1.2 Changes of accounting policies

The accounting policies for the Company that relate to the adoption of IFRS 9, IFRS 15 and assessment of the application of IFRS 16 can be found in Note 2.2 of the consolidated financial statements. There was no additional material impact on the adoption of these standards to the Company.

1.3 Summary of significant accounting policies

a) The accounting policies for the Company that relate to the following items can be found in Note 2.6 to the consolidated financial statements:

- income taxes;
- foreign currencies;
- property, plant and equipment;
- leases;
- impairment of non-financial assets;
- cash and short-term deposits;
- short-term investments;
- provisions;
- share-based payments;
- costs of issuing capital;
- convertible loan instrument;
- R&D costs;
- bank loan and associated warrants; and
- the TAP funding agreement associated warrants.

1. Significant accounting policies continued

1.3 Summary of significant accounting policies continued

b) Intercompany guarantee

Financial guarantees given by subsidiaries to the Company are measured at fair value. The total cost of such guarantees is charged to the statement of comprehensive loss at the time the guarantee is given, in accordance with IAS 39.

c) Investment in subsidiaries

The Company capitalizes intercompany balances with its subsidiaries at each month end (creating an investment in subsidiaries), up to the point where it believes the subsidiary is in a position to repay any balances within the next 12 months. Capitalized balances are reviewed for impairment at each period end.

2. Significant accounting judgments, estimates and assumptions

The preparation of the Company accounts requires the management of the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates and judgments on historical experience and on various other assumptions that it considers to be reasonable. Actual results may differ from these estimates under different assumptions or conditions.

Share-based compensation

Incentives in the form of shares are provided to employees under a share option plan, long-term incentive plan and deferred bonus share plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The selection of different assumptions could affect the results of the Company.

Deferred license consideration

Deferred consideration in the form of shares is recognized as a share-based payment when it is probable that shares will be transferred (see Note 24 to the consolidated financial statements).

Bank loan and associated warrants

As part of the bank loan the Company has issued warrants to subscribe for shares. The fair value of the warrants issued is assessed at each balance sheet date based upon a number of assumptions, as disclosed in Note 20 to the consolidated financial statements.

TAP funding and associated warrants

As part of the funding received from TAP, the Company has issued warrants to subscribe for shares. The liability is measured first at fair value and the difference between the funding payment amount received and the measurement of the liability is allocated to the warrants (see Note 21). The value of warrants will not be subsequently remeasured.

Intercompany guarantee

As part of the bank loan, the Company's subsidiaries have provided certain guarantees to the lender. In return for these guarantees the subsidiaries have each charged the Company a guarantee fee on an arm's length basis. The fee has been calculated using management's best judgments and estimates of the fair value of the guarantee including a credit default swap valuation methodology for estimating the fair value of the guarantee and an estimate of the likely interest rate which would have been payable had the guarantees not been given.

3. Loss for the year

The Company has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 not to present an income statement for the year. The Company's loss for the year was £9,975,569 (2017: £9,867,217), which has been included in the Company's statement of comprehensive loss.

The Auditor's remuneration for audit and other services is disclosed in Note 6 to the consolidated financial statements.

The average number of employees in the year was 36 (2017: 28). The directors' remuneration is detailed in Note 7 to the consolidated financial statements.

The Company had a net deferred tax asset of £2,325,362 at December 31, 2018 (2017: £3,039,892).

The deferred tax asset has not been recognized as there is uncertainty regarding when suitable future profits against which to offset the accumulated tax losses will arise. There is no expiration date for the accumulated tax losses.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

4. Company information

Investments in subsidiaries

	£
At January 1, 2017	67,754,682
Additions in the year	29,349,941
At December 31, 2017	97,104,623
Additions in the year	26,269,463
At December 31, 2018	**123,374,086**

Information about subsidiaries

The following were subsidiary undertakings at the end of the year and have been included in the consolidated financial statements of the Group:

Name	Principal activities	Country of incorporation	% equity interest December 31, 2018	% equity interest December 31, 2017
Mereo BioPharma 1 Limited	Pharmaceutical R&D	U.K.	**100**	100
Mereo BioPharma 2 Limited	Pharmaceutical R&D	U.K.	**100**	100
Mereo BioPharma 3 Limited	Pharmaceutical R&D	U.K.	**100**	100
Mereo BioPharma 4 Limited	Pharmaceutical R&D	U.K.	**100**	100
Mereo BioPharma Ireland Limited	Pharmaceutical R&D	Ireland	**100**	—
Mereo US Holdings Inc.		U.S.	**100**	—
Mereo MergerCo One Inc.		U.S.	**100**	—
Mereo BioPharma Group plc Employee Benefit Trust	Employee share scheme	Jersey	**—**	—

The registered office of Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma 4 Limited is located at Fourth Floor, 1 Cavendish Place, London W1G 0QF.

Mereo BioPharma Ireland Limited was incorporated on June 1, 2018. The registered office of Mereo BioPharma Ireland Limited is 25/28 North Wall Quay, Dublin 1, D01H104, Ireland.

Mereo US Holdings Inc. and Mereo MergerCo One Inc. were incorporated on December 3, 2018 for the sole purpose of effecting the proposed business combination with OncoMed (see Note 28). The registered office of Mereo US Holdings Inc. and Mereo MergerCo One Inc. is 251 Little Falls Drive, City of Wilmington, County of New Castle, Delaware 19808, U.S. Mereo MergerCo One Inc. is a 100% owned subsidiary of Mereo US Holdings Inc.

Mereo BioPharma 1 Limited, Mereo BioPharma 2 Limited, Mereo BioPharma 3 Limited and Mereo BioPharma Ireland Limited each have issued share capital of one ordinary share of £1 fully paid or credited as fully paid, totaling £5.

Mereo BioPharma 4 Limited has issued share capital of two ordinary shares of £1 fully paid or credited as fully paid, totaling £2. On June 27, 2018, following the capitalization of the intercompany balance with Mereo BioPharma Group, Mereo BioPharma 4 Limited issued one ordinary share of £1 in the capital of the company to Mereo BioPharma Group plc for a subscription amount of £1,608,609.

Mereo US Holdings Inc. has issued share capital of one share of common stock of $0.01 fully paid or credited as fully paid, totaling $0.01.

Mereo MergerCo One Inc. has issued share capital of one hundred shares of common stock of $0.01 fully paid or credited as fully paid, totaling $1.

Under IFRS, the Employee Benefit Trust is treated as an extension of the Group and the Company as it is controlled and therefore consolidated.

A capital contribution of £26,269,463 (2017: £29,349,941) by Mereo BioPharma Group plc to its subsidiaries was recorded in the year to December 31, 2018. £687,310 (2017: £859,681) has been recorded for the granting of employees' share options for services rendered by the employees to the subsidiaries. £25,582,153 (2017: £28,490,260) has been recorded for the conversion of intercompany balances at original cost. In the year to 31 December 2017, £2,280,000 of this represented a cash payment made by the Company on behalf of Mereo BioPharma 4 Limited for the acquisition of the exclusive license for MPH-966.

As at December 31, 2018 a total capital contribution of £3,556,799 (2017: £2,869,488) by Mereo BioPharma Group plc to its subsidiaries has been recorded for the granting of employees' share options for services rendered by the employees to the subsidiaries.

As at December 31, 2018 a total capital contribution of £119,817,287 (2017: £94,235,135) by Mereo BioPharma Group plc to its subsidiaries has been recorded for the conversion of intercompany balances at original cost.

5. Amounts owed by Group undertakings

	December 31, 2018 £	December 31, 2017 £
Intercompany deferred equity consideration	—	1,331,288
Intercompany loan notes	—	1,543,987
Other intercompany receivables	—	4,811,124
Total amounts owed	—	7,686,399
Current	—	6,355,111
Non-current	—	1,331,288

On January 1, 2018 Mereo BioPharma Group plc resolved to capitalize the intercompany loans and all outstanding intercompany receivables at that date.

Deferred equity consideration

In October 2017, our wholly owned subsidiary Mereo BioPharma 4 Limited entered into an exclusive license and option agreement (the "License Agreement"), to obtain from AstraZeneca an exclusive worldwide, sub-licensable license under AstraZeneca's intellectual property rights relating to MPH-966, with an option to acquire such intellectual property rights following commencement of a pivotal trial and payment of related milestone payments (the "Option"), together with the acquisition of certain related assets.

Under the agreement with AstraZeneca, the Company may issue, on behalf of Mereo BioPharma 4 Limited, up to 1,349,693 ordinary shares which are dependent on achieving certain milestones.

In respect of milestones that are probable, the Company has accounted for, but not yet issued, 429,448 ordinary shares which have been measured at fair value, being £3.10, giving a total of £1,331,288.

Intercompany loan notes

For the exclusive license and option agreement mentioned above, the initial upfront payment totaled $5,000,000, in a combination of $3,000,000 in cash and the issue of 490,798 new ordinary shares in the capital of Mereo BioPharma Group plc to AstraZeneca AB with a value of $2,000,000, or £3.097 per share. In consideration for the issuance by the Company to AstraZeneca AB of the consideration shares, Mereo BioPharma Group 4 Ltd issued a loan note to the Company of $2,000,000 or £1,520,000. The loan note was interest bearing at a fixed rate of 9% per annum. On June 28, 2018 the loan note was extinguished following repayment of the principal amount of £1,520,000 plus interest of £88,609, totaling £1,608,609. £64,622 (2017: £23,987) of interest has been charged in the period to December 31, 2018.

Other intercompany receivables

This represents the amount owed by subsidiaries which has not been capitalized in accordance with our accounting policy (see Note 1.4c) and which we expect to be repaid within the next 12 months.

6. Property, plant and equipment

The Group's property, plant and equipment is all owned by the Company. Details on the property, plant and equipment are provided in Note 11 to the consolidated financial statements.

7. Other receivables

The Group's other receivables all reside in the Company. Details are provided in Note 14 to the consolidated financial statements.

8. Cash and short-term deposits

The Group's cash is all held by the Company. Details on the cash and short-term deposits are provided in Note 15 to the consolidated financial statements.

9. Short-term investments

The Group's short-term investments are all held by the Company. Details on the short-term investments of the Company are provided in Note 16 to the consolidated financial statements.

10. Share capital

The Group's share capital all resides in the Company. Details on the share capital of the Company are provided in Note 17 to the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *CONTINUED*

11. Interest-bearing loans and borrowings

The Group's interest-bearing loans and borrowings all reside in the Company. Details on the interest-bearing loans and borrowings of the Company are provided in Note 18 to the consolidated financial statements.

12. Provisions

Social security contributions on share options	**Year ended December 31, 2018 £**	Year ended December 31, 2017 £
At beginning of year	**2,288,386**	1,172,420
Arising during the year	**–**	1,115,966
Released	**(1,446,019)**	–
At December 31	**842,367**	2,288,386
Current	**–**	–
Non-current	**842,367**	2,288,386

The provision for social security contributions on share options is calculated based on the number of options outstanding at the reporting date that are expected to be exercised. The provision is based on the estimated gain arising on exercise of the share options, using the best estimate of the market price at the balance sheet date. Since the directors assume the options will be held for their full contractual life of ten years (see Note 25 to the consolidated financial statements) the liability has been classified as non-current. The provision has been discounted. The negative charge in 2018 is due to the fall in the Company's share price between 31 December 2017 and 31 December 2018.

13. Warrant liability

The Group's warrant liability resides in the Company. Details on the warrant liability of the Company are provided in Note 20 to the consolidated financial statements.

14. Trade and other payables

The Group's trade and other payables all reside in the Company. Details on the trade and other payables of the Company are provided in Note 22 to the consolidated financial statements.

15. Share-based payments

The charge for share-based payments under IFRS 2 arises across the following schemes:

	December 31, 2018 £	December 31, 2017 £
2015 Plan	**717,977**	1,934,893
Mereo BioPharma Group plc Share Option Plan	**499,116**	311,612
Long Term Incentive Plan	**284,891**	263,840
Deferred Bonus Share Plan	**–**	281,872
	1,501,984	2,792,217

Details on the share-based payments of the Company, including deferred equity consideration, are provided in Note 25 to the consolidated financial statements.

16. Related party disclosures

Details on related parties are provided in Note 27 to the consolidated financial statements.

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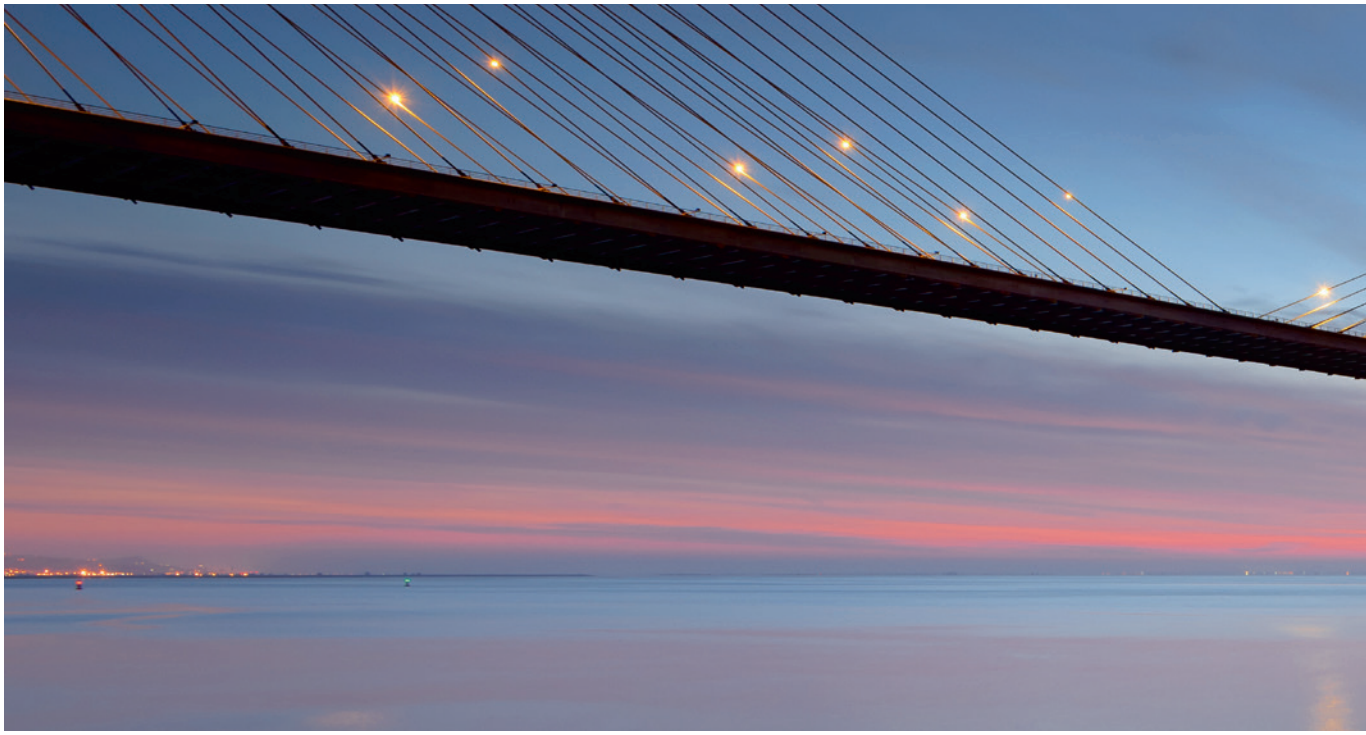

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