Company Number 09481161

MEREO BIOPHARMA GROUP PLC

Annual Report and Accounts
Year ended December 31, 2019

MEREO BIOPHARMA GROUP PLC

CONTENTS

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The Directors present their strategic report together with the corporate governance report, audited consolidated financial statements, audited company financial statements and auditors' report for the year ended December 31, 2019.

This strategic report is broken down into the following sections:

- Business strategy;
- Chairman and CEO's statement;
- Financial review; and
- Principal risks and uncertainties.

We are a biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for oncology and rare diseases. Our existing portfolio consists of six clinical stage product candidates. Our lead oncology product candidate, etigilimab (an "Anti-TIGIT"), has completed a Phase 1a dose escalation clinical trial in patients with advanced solid tumors and has been evaluated in a Phase 1b study in combination with nivolumab in select tumor types. Our second oncology product, navicixizumab for the treatment of late line ovarian cancer has completed a Phase 1 study and has been partnered with Oncologie, Inc. Our rare disease product candidates are setrusumab for the treatment of osteogenesis imperfecta ("OI") and alvelestat for the treatment of severe alpha-1 antitrypsin deficiency ("AATD") which is being investigated in an ongoing Phase 2 proof-of-concept study. We plan to complete a strategic partnership for the development of setrusumab in adults and children following the the Phase 2b study in adults and alignment with the FDA and EMA on the pivotal study design for children with OI.

We plan to develop our product candidates for oncology and rare diseases through the next key clinical milestone and then partner or in selected cases to develop through regulatory approval and potentially commercialization.

We plan to partner or sell our other two product candidates (which do not target oncology or rare diseases), acumapimod for the treatment of acute exacerbations of chronic obstructive pulmonary disease ("AECOPD") and leflutrozole for the treatment of infertility and hypogonadatropic hypogonadism ("HH") in obese men, recognizing the need for greater resources to take these product candidates to market.

Our strategy is selectively to acquire and develop product candidates for oncology and rare diseases that have already received significant investment from large pharmaceutical and biotechnology companies and that have substantial pre-clinical, clinical and manufacturing data packages. Since our formation in March 2015, we have successfully executed on this strategy by acquiring six clinical-stage product candidates, of which four were in oncology and rare diseases. Four of these six clinical-stage product candidates were acquired from large pharmaceutical companies and two of which we acquired in the merger with OncoMed Pharmaceuticals, Inc. ("OncoMed"). We aim to efficiently develop our product candidates through the clinic and have commenced or completed large, randomized Phase 2 clinical trials for four of our product candidates.

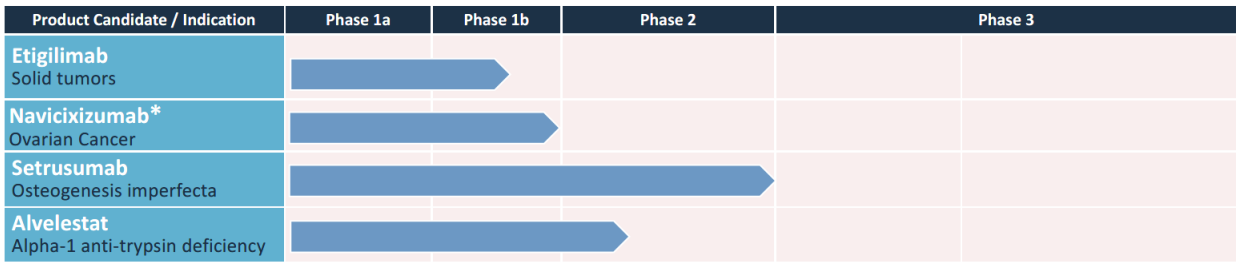
Oncology and rare diseases represent an attractive development, and in some cases, commercialization opportunity for us since they typically have high unmet medical need and can utilize regulatory pathways that facilitate acceleration to approval and to the potential market. Development of products for oncology and rare diseases both involve close collaboration with key opinion leaders and investigators. Development of rare disease products generally involves close coordination with the patient organizations and patients are 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.

Our team has extensive experience in the pharmaceutical and biotechnology sector in the identification, acquisition, development, manufacturing and commercialization of product candidates in multiple therapeutic areas. Our senior management has long-standing relationships with senior executives of large pharmaceutical and biotechnology companies which we believe enhances our ability to form strategic partnerships on our product candidates and to identify and acquire additional product candidates.

Our Pipeline

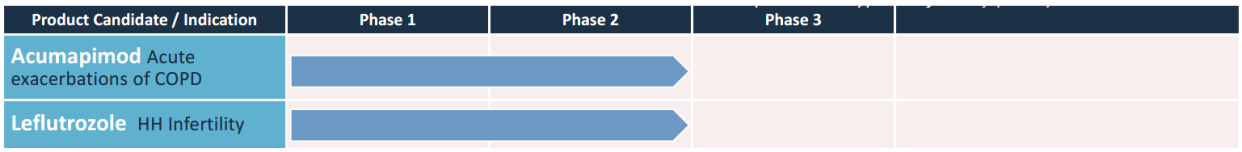
The following tables summarize our pipeline for our oncology and rare disease product candidates and our other product candidates. We have global commercial rights to etigilimab, setrusumab, alvelestat, acumapimod and leflutrozole.

ONCOLOGY AND RARE DISEASE PORTFOLIO



*Partnered with Oncologie, Inc

OTHER CANDIDATES FOR PARTNERING



We intend to become a leading biopharmaceutical company developing innovative therapeutics that aim to improve outcomes for patients with oncology and rare diseases. The key elements of our strategy to achieve this goal include:

- **Rapidly develop our oncology and rare disease product candidates.** Etigilimab, our lead oncology program, has completed a Phase 1a dose escalating monotherapy study and has been evaluated in a Phase 1b combination study in a range of tumor types. We plan to initiate a Phase 1b study of etigilimab in combination with a PDL-1/PD-1 in Q4 2020. Our second oncology product Navicixizumab for the treatment of late line ovarian cancer has completed a Phase 1 study and has been partnered with Oncologie, Inc. We have completed and announced top-line data on a Phase 2b clinical trial of setrusumab for the treatment of OI in adults in the United States, Europe and Canada. We reported top-line data on the three blinded dose ranging arms in November 2019 with the results supporting progression of setrusumab into a pediatric pivotal study in OI. Following the completion of the dosing part of the study, patients will continue to be followed for a further twelve months to examine the off-effects of setrusumab. We have agreed on a PIP for setrusumab with the EMA and following our end of Phase 2 Type B meeting with the FDA in February 2020 have alignment on a pivotal study design for children with OI fracture as the primary end point. We plan to form a strategic partnership for setrusumab prior to initiation of the pivotal study in children with OI and believe the results from this trial, if favorable, will be sufficient to support the submission of a BLA in the United States and MAA in the EU for setrusumab for the treatment of children with severe OI and a CMA for the treatment of adults with OI.

  We have commenced a Phase 2 proof-of-concept clinical trial of alvelestat for the treatment of severe AATD and as previously announced expect to report top-line data from this trial in the second half of 2021. If the results are favorable and pending regulatory feedback, we will assess the options for further development of alvelestat towards approval and commercialization.

- **Explore strategic relationships with third parties for further clinical development and/or commercialization or strategic sales or out-licensing for our other product candidates (non-oncology/non-rare disease).** Based on the results from our Phase 2 clinical trial of acumapimod, we plan to enter into one or more strategic relationships with third parties for acumapimod to undertake the next phase of clinical development and, if approved, commercialization. In March 2018, we reported top-line Phase 2b data for leflutrozole for the treatment of HH and in December 2018, we reported positive results from the safety extension study for leflutrozole. We intend to explore strategic relationships with third parties for the further development and commercialization of leflutrozole.

- **Continue to be a partner of choice for large pharmaceutical and biotechnology companies.** We believe that we are a preferred partner for large pharmaceutical and biotechnology companies as they seek to unlock the potential in their development pipelines and deliver therapeutics to patients in areas of high unmet medical need. We have strong relationships with these companies, as evidenced by our agreements with Novartis and AstraZeneca, as well as by the merger with OncoMed, and a track record of structuring transactions that enable us to leverage our core capabilities while creating value for all stakeholders. We intend to continue to enter into strategic relationships that align our interests with those of large pharmaceutical and biotechnology companies and that we believe to be mutually beneficial.

- **Leverage our expertise in business development.** Our senior management team has extensive relationships with large pharmaceutical and biotechnology companies. These relationships are important to us as we seek to form strategic partnerships on our product candidates and as appropriate, to grow our pipeline of product candidates in oncology and rare diseases.

Introduction

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

During the year, we completed our acquisition of OncoMed, became a US listed company and acquired two clinical stage oncology programs, etigilimab (an "Anti-TIGIT") and navicixizumab (or "Navi"). Successful integration of OncoMed has allowed us to broaden our asset base and significantly strengthen our cash position, enabling us to progress beyond our key clinical milestones. We have also gained the skills and expertise of an operational base in the U.S. including highly relevant regulatory expertise. Our current portfolio consists of six clinical-stage product candidates. Etigilimab represents an attractive investment opportunity for the Company given the recent developments with other Anti-TIGIT programs. In January 2020, we announced that we had signed a global licensing deal with Oncologie, Inc. on our second oncology program, navicixizumab, for ovarian cancer. Our rare disease and orphan drug product candidates, setrusumab for the treatment of OI and alvelestat for the treatment of severe AATD, represent attractive development opportunities for us. We plan to partner setrusumab prior to initiation of the pivotal study and subsequent commercialization. Prior to our acquisition of OncoMed, each of our rare disease product candidates had generated positive clinical data for their respective target indications or for a related indication.

During the year, we made significant progress across our product development programs both in terms of clinical development and regulatory strategy. On November 11, 2019, we reported 12-month top-line data from our Phase 2b dose-ranging clinical trial for setrusumab in adults with Type I, III or IV OI. The study enrolled 112 patients in the U.S. and Europe and randomized patients originally to one of four different blinded monthly dosing regimens of setrusumab: high, medium, low and placebo. The study was subsequently revised to convert the placebo arm into an open-label arm where patients received the high dose regimen of setrusumab. The data demonstrated setrusumab to have a dose-dependent bone-building activity measured by well-established bone density scans ("DXA scans"). In the high dose arm, we also saw fewer fractures than in the medium or the low dose arms. Setrusumab was demonstrated to be safe and well-tolerated in the patients participating in the Phase 2b adult study, as well as by the 83 subjects across the four Phase 1/2 setrusumab studies completed to date.

After the end of the year, on January 14, 2020, we reported additional positive data from our Phase 2b dose-ranging clinical trial. Setrusumab demonstrated a dose dependent increase in bone strength stiffness and failure load at the radius as measured by Finite Element Analysis ("FEA"). This was a second prespecified primary end point and reached statistical significance in the high dose cohort but not in the medium and low dose cohorts. These FEA data are consistent with an effect of setrusumab at the high dose improving radius bone strength as evidenced by a better ability to resist experimental deformation and improved failure load.

We announced a successful end of Phase Type B meeting on navicixizumab in July 2019 during which we agreed the outline of a Phase 2 registrational study for ovarian cancer and an accelerated approval pathway. Navicixizumab was also granted fast-track designation in the second half of 2019.

In February 2020, we completed a £3.8m million convertible equity financing with Novartis Pharma AG ("Novartis"). Also in February we completed two Securities Purchase Agreements with Boxer Capital of Tavistock Group, and Aspire Capital Fund LLC ("Aspire") which raised a total of $6 million before expenses. The Agreement with Aspire included the ability to issue up to an additional $25 million of American Depositary Shares over a three-year period.

On February 28, 2020, we announced the successful completion of a Type B End-of-Phase 2 meeting with the U.S. FDA to discuss the development of setrusumab for the treatment of children with OI. Following the review of the data from the Phase 2b study with setrusumab in adults with OI, and the design for our proposed Phase 3 study in children with OI, the U.S. FDA agreed on the design of a Phase 3 pediatric study in OI to be completed prior to the submission of a potential BLA in the U.S. This is in line with our proposed pivotal pediatric study design, which has already been agreed to in principle with the EMA in August 2018.

On June 4, 2020, we announced the completion of a private placement of $70 million (£56 million) (the "Fundraising") before commission and expenses with a number of new and existing principally U.S based institutional and accredited investors. OrbiMed led the Fundraising with participants including Vivo Capital,

Surveyor Capital (a Citadel company), Pontifax Venture Capital, Samsara BioCapital, Commodore Capital, and funds managed by Janus Henderson Investors alongside existing investors Boxer Capital of Tavistock Group and Aspire.

Update on impact of COVID-19

Coronavirus disease 2019 ("COVID-19") is an infectious respiratory disease that was first identified in 2019 in Wuhan, China and has since spread globally. The impact COVID-19 is evolving rapidly and its future effects are uncertain.

We are actively monitoring how the effects and risks of COVID-19 impact our day-to-day operations, including our ongoing clinical trial activities:

- Our current activities on setrusumab for potential treatment of OI are focussed on completion of the ASTEROID Phase 2b extension study in adults with OI and preparations for the Phase 3 pediatric trial, which subject to partnering, we intend to start in the second half of 2020. We currently expect no change to this timeline. Our Phase 2b ASTEROID study in OI is fully recruited with topline results, as discussed above, previously announced in November 2019. Patients who enrolled in this study are in a one-year follow up post treatment extension phase.
- Our Phase 2 alvelestat trial recruits individuals with alpha-1 antitrypsin deficiency-related lung disease, who are potentially at greater risk from COVID-19 exposure. As a result, and as we announced in March 2020, recruitment into our Phase 2 alpta-1 antitrypsin study will be delayed, with topline data now expected in the second half of 2021.

As a business, we have taken necessary measures across our sites in the U.K. and U.S. to ensure that our employees and other key stakeholders best adhere to the advice set out by the relevant authorities. Such measures have included the introduction of remote working arrangements, reduced face to face contact by encouraging the use of teleconferencing, a ban on domestic and international travel as well as other measures considered necessary by our recently formed COVID-19 committee which is responsible for business continuity planning during this challenging time.

Organizational change

On March 27, 2020, we announced that Michael Wyzga who currently serves as a Non-Executive Director, will become the Interim Chief Financial Officer following the announced departure of Richard Jones, the Company's current Chief Financial Officer ("CFO"). Richard Jones will remain in his position as CFO for a transitionary period of up to five months from March 2020.

Michael Wyzga previously served as President and Chief Executive Officer and a member of the Board of Directors of Radius Health, Inc. Prior to that he served in various senior management positions at Genzyme Corporation, including as CFO from July 1999 until November 2011. Following completion of the Fundraising, we now intend to commence a search for a permanent CFO.

Section 172(1) Companies Act 2006

The Directors are required by law to act in good faith to promote the success of the Group for the benefit of the shareholders. As set out within the content of this annual report, the Directors have considered the following matters throughout the year and in formulating the future strategy of the business:

- The likely long-term consequences of any decision, as set out within our Business Strategy and Chairman and CEO's Statement on pages 4 to 13;
- The interests of the Group's employees as set out within our Corporate Governance Report on pages 35 to 45;
- The need to foster the Group's business relationships with suppliers, customers and others on page 7 to 13;
- The impact of the Group's operations on the community and the environment, as set out within our summary of environmental matters on pages 12-13,
- The desirability of the Group maintaining a reputation for high standards of business conduct on page 7 to 13; and

- The need to act fairly as between shareholders of the Group, as set out within our Corporate Governance Report on page 35 to 45.

The Group endeavours to maintain good relationships with our suppliers by contracting, where possible, on their standard business terms and paying them in accordance with the relevant terms agreed. We meet with our significant suppliers regularly, using the meetings to ensure that our research programs are planned and delivered and effectively in a timely and cost-efficient manner. This ensures that the Group's and our significant suppliers' interest are aligned.

The Board recognizes the importance of maintain high standards of business conduct. The Group operates a Code of Business Conduct and Ethics, publicly available on our website, which contains general guidelines for conducting the business of the Group consistent with the highest standard of business ethics. In addition, the Group has an Employee Handbook which employees are required to read and acknowledge on an at least annual basis.

Business overview

Oncology Disease Product Candidates

- **Etigilimab (OMP-313M32):** Etigilimab is an antibody against TIGIT (T-cell immunoreceptor with Ig and ITIM domains). TIGIT is a next generation checkpoint receptor shown to block T-cell activation and the body's natural anti-cancer immune response. Etigilimab is an IgG1 monoclonal antibody which binds to the human TIGIT receptor on immune cells with a goal of improving the activation and effectiveness of T-cell and NK cell anti-tumor activity. Mereo completed a Phase 1a dose escalation clinical trial with etigilimab in patients with advanced solid tumors and enrolled patients in a Phase 1b study in combination with nivolumab in selected tumor types.

  23 patients were treated in the Phase 1a dose escalation study with doses up to 20mg/kg Q2W. Tumor types included colorectal cancer, endometrial cancer, pancreatic cancer and other tumor types. No dose limiting toxicities were observed. In the Phase 1b combination study, a total of ten patients, nine of whom had progressed on prior anti-PD1/PD-L1 therapies were enrolled at doses of 3, 10, and 20 mg/kg. Tumor types included gastric cancer and six other tumor types. Eight patients were evaluable for tumor growth assessment, and all of these patients had progressed on PD1/PD-L1 therapies with best responses including two patients with a partial response and stable disease. Patients remained on study for up to 224 days. No dose limiting toxicities (DLTs) were observed.

  The only treatment-related adverse event in the Phase 1a portion of the study with an incidence rate greater than 20 per cent. was rash (35 per cent.), and the most common treatment-related adverse events in the Phase 1b portion of the study were rash (40 per cent.), fatigue (30 per cent.) and pruritus (20 per cent.) There was only one treatment-related serious adverse event in the Phase 1a portion (autoimmune hepatitis) and there were no treatment-related serious adverse events in the Phase 1b portion of the study. The Phase 1b study has now completed.

  The etigilimab program was previously subject to an exclusive license option with Celgene Corporation ("Celgene") as part of a collaboration agreement from 2013 with OncoMed ("the Collaboration Agreement"). In June 2019, we announced that Celgene had notified OncoMed that Celgene had decided, in light of strategic product portfolio considerations, not to exercise its option to license etigilimab. The Collaboration Agreement was terminated with respect to etigilimab effective on October 11, 2019. As a result, we have worldwide rights to the etigilimab program.

- **Navicixizumab (OMP-305B83):** Navi is a bispecific antibody that inhibits delta-like ligand 4 (DLL4) and vascular endothelial growth factor VEGF). We acquired this therapeutic product in the merger with OncoMed. This antibody is intended to have anti-angiogenic and anticancer stem cell activity. In a Phase 1a clinical trial, Navi demonstrated single agent activity. Following this we conducted a Phase 1b clinical trial in ovarian cancer, in combination with paclitaxel, in platinum-resistant ovarian cancer. A successful FDA Type B meeting was held in July 2019 and the potential for accelerated approval was discussed. Navicixizumab has also been granted Fast Track Approval by the FDA. In January 2020 we completed a global license agreement with Oncologie, Inc. ("Oncologie") for the further development and commercialization of Navi.

Rare Disease Product Candidates

- **Setrusumab (BPS-804):** Setrusumab is a novel antibody we are developing as a treatment for OI, a rare genetic disease that results in bones that can break easily and is commonly known as brittle bone disease. OI is a debilitating orphan disease for which there are no treatments approved by the FDA or EMA. It is estimated that OI affects a minimum of 25,000 people in the United States and approximately 32,000 people in Germany, Spain, France, Italy, and the United Kingdom. Setrusumab is designed to inhibit sclerostin, a protein that inhibits the activity of bone-forming cells. We believe setrusumab's mechanism of action is well suited for the treatment of OI and has the potential to become a novel treatment option for patients that could reduce fractures and improve patient quality of life.

  In 2016, we obtained orphan drug designation in OI for setrusumab in the United States and the EU and, in November 2017, it was accepted into the Priority Medicines scheme ("PRIME") of the EMA. Prior to our acquisition of setrusumab, Novartis conducted four clinical trials in 106 patients and healthy volunteers. A Phase 2 clinical trial of setrusumab in OI showed statistically significant improvements in bone formation biomarkers and bone mineral density. In April 2017, we initiated a Phase 2b clinical trial for setrusumab in adults in the United States, Europe and Canada. The trial is randomized with three blinded arms at high, medium and low doses to establish the dose response curve and an open label arm at the top dose. We reported top-line data on the three blinded dose ranging arms in November 2019 with the results supporting progression of setrusumab into a pediatric pivotal study in OI.

  Following the completion of the dosing part of the study, patients are continuing to be followed for a further twelve months to examine the off-effects of setrusumab. We have also agreed on a PIP for setrusumab with the EMA and in February 2020, we announced the successful completion of a Type B End-of-Phase 2 meeting with the FDA to discuss the development of setrusumab for the treatment of children with OI in the United States. We intend to partner setrusumab prior to conducting a pivotal trial of setrusumab in children with severe OI to begin in late 2020, with fracture rate as the primary endpoint. We believe that the results from this trial, if favorable, will be sufficient to support the submission of an MAA to the EMA for setrusumab for the treatment of children with severe OI and a CMA for the treatment of OI in adults in the EU.

- **Alvelestat (MPH-966):** Alvelestat is a novel, oral small molecule we are developing for the treatment of severe AATD, a potentially life-threatening, rare, genetic condition caused by a lack of effective alpha-1 antitrypsin ("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. There are an estimated 50,000 patients in North America and 60,000 patients in Europe with severe AATD. Alvelestat is designed to inhibit NE, a neutrophil protease, which is 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.

  Prior to our license of alvelestat, AstraZeneca conducted 12 clinical trials involving 1,776 subjects, including trials in bronchiectasis and CF. Although these trials were conducted in diseases other than AATD, we believe the data demonstrated potential clinical benefit and biomarker evidence of treatment effect for AATD patients. We have initiated a Phase 2 proof-of-concept clinical trial in patients with severe AATD in the United States and the EU and as previously announced, expect to report top-line data from this trial in the second half of 2021.

Other Product Candidates for Partnering

Our portfolio of non-oncology/non-rare disease products consists of the following product candidates:

- **Acumapimod (BCT-197):** Acumapimod is a p38 MAP kinase inhibitor we are developing as an oral first-line acute therapy for patients with AECOPD. COPD is a non-fully-reversible, progressive lung disease in which inflammation plays a central role. There are an estimated 16 million people in the United States diagnosed with COPD. Of all hospital admissions in the United States related to COPD, approximately 63 per cent. are for AECOPD patients. We believe acumapimod offers a potential new treatment for controlling inflammation by targeting pathways that drive the pathological mechanism behind AECOPD.

Since there are currently no approved therapies in the United States or the EU to treat AECOPD, we believe that there is significant medical need for a drug which is disease-modifying. We believe acumapimod could potentially prevent AECOPD instead of just treating the symptoms and has the potential to improve quality of life, slow the progression of the disease, and significantly reduce direct healthcare costs.

Prior to our acquisition of acumapimod, Novartis conducted five clinical trials in 459 patients and healthy volunteers, including a Phase 2a trial in AECOPD patients that showed a clinically meaningful improvement in lung function at the highest dose.

We conducted a Phase 2 dose-ranging clinical trial for acumapimod in 282 patients with AECOPD to explore two different dosing regimens on top of standard of care, which included steroids, antibiotics, and bronchodilators. Both dosing regimens showed a statistically significant change in FEV1 from baseline to Day 7, meeting the trial's primary endpoint on an intent-to-treat patient population basis. In addition, dose-dependent, statistically significant reductions in hsCRP and fibrinogen were shown with treatment with acumapimod, with hsCRP remaining suppressed through the 26-week observation period. Treatment with acumapimod also showed a statistically significant reduction in the number of COPD exacerbations that required hospitalization. Consistent with these results, there was a significant reduction in the use of corticosteroid and antibiotics in the follow-up portion of the study. In addition, acumapimod was reported to be safe and well tolerated. Based on these results, we intend to explore strategic options with third parties for the further development of acumapimod.

In addition, in April 2019, we announced a successful end of Phase 2 meeting with the FDA regarding acumapimod. In the meeting, we and the FDA agreed on a development plan for acumapimod. In September 2019, we had a positive SAWP meeting with the EMA.

- **Leflutrozole (BGS-649):** Leflutrozole is a once-weekly oral therapy we are developing for the treatment of HH in obese men. HH is a clinical syndrome that results from inadequate levels of testosterone. Based on WHO estimates and scientific data, we estimate there are approximately seven million cases of HH in obese men in the United States. In these men, a decline in testosterone is exacerbated by high levels of the aromatase enzyme, which is present in fat tissue and leads to a reduction in testosterone. Leflutrozole is designed to inhibit the aromatase enzyme and is being developed to restore normal levels of testosterone without causing excessively high testosterone levels or reducing the levels of LH or FSH. Both LH and FSH play key roles in sperm formation and LH plays a key role in endogenous testosterone formation. In contrast to current therapies for HH, which involve the exogenous administration of testosterone and lead to further down regulation of LH and FSH, we believe that leflutrozole, by preserving sperm formation through LH and FSH production, may present a benefit to patients.

  Prior to our acquisition of leflutrozole, Novartis conducted seven clinical trials exposing 131 patients and healthy volunteers to leflutrozole, including a Phase 2 proof-of-concept trial for HH in obese men in which leflutrozole normalized testosterone levels in all patients and demonstrated an increase in LH and FSH levels.

  In March 2018, we reported top-line data from our completed Phase 2b dose-ranging clinical trial of leflutrozole for the treatment of HH in obese men. The trial enrolled 271 patients who were administered placebo or one of three doses of leflutrozole. The trial met our primary endpoint of normalizing testosterone levels in at least 75 per cent. of subjects after 24 weeks of treatment and all of the secondary endpoints, including normalizing testosterone in at least 90 per cent. of patients after 24 weeks of treatment at the two highest doses and improvement in LH and FSH levels at all three doses. Leflutrozole was reported to be well-tolerated in the trial. A subset of 143 patients entered into a six-month safety extension study. Following the positive result of the safety extension study for leflutrozole, we convened an advisory board meeting and concluded that the future development of leflutrozole should focus on male infertility. We intend to explore strategic options with third parties for the further development of leflutrozole.

New product opportunities
To support our aim of becoming a leading oncology and rare disease company, we continue to seek and review new product opportunities to expand and grow our portfolio in oncology and rare diseases. There continues to be a good number of opportunities arising from large pharma and biotechnology companies as they continue to reappraise development pipelines on an ongoing basis to allow them to focus on a smaller number of strategically targeted therapeutic areas.

Future outlook
With the closing of the Fundraising with a very high-quality group of institutional and accredited investors in June 2020 and the evolution of our strategy to focus on oncology and rare diseases, 2020 is set to be an important year for the Company. We expect to initiate our phase 1b for etigilimab in a number of solid tumors, to continue to enrol the Phase 2 study for alvelestat in AATD patients and to report on the Phase 2b adult extension study for setrusumab in adults with OI.

TIGIT blockade in combination with anti-PD1/PD-L1 antibodies has recently been highlighted as a potential next generation immuno-oncology target for the treatment of patients with advanced solid malignancies. We are excited to move our program forward on the back of our Phase 1a mono therapy and Phase 1b combination data.

Setrusumab for OI is now Phase 3 ready as a result of the successful end of Phase 2b meeting with the FDA and the approval of a Paediatric Investigational Plan ("PIP") by the EMA. We plan to initiate the Phase 3 study in children with OI once we have secured a strategic partnership for this program which may include regional partnerships or a global licensing deal.

Following the partnership with Oncologie for Navi, we continue to focus on partnering opportunities for our other product candidates (non-oncology/non-rare disease) acumapimod and leflutrozole.

Finally, we are now funded into early 2022 providing the Company sufficient balance sheet strength and runway to deliver on our clinical and business development milestones.

Information about the Group's employees
Within our corporate governance report on page 42, further information about the Group's employees and gender diversity can be found.

The Board has a good relationship with the Group's employees. The Board maintains constructive dialogue with employees through the Chief Executive Officer ("CEO") and through regular "town hall" all-employee meetings and video conference calls where the Executive Team provides updates on strategic progress and a forum for answering questions. Appropriate remuneration and incentive schemes are maintained to align employees' objectives with those of the Group.

As set out in our Code of Business Conduct and Ethics, the Group is committed to providing a safe and healthy working environment for its employees and to avoiding adverse impact and injury to the environment and the communities in which we do business. To achieve this, Group employees must comply with all applicable external environmental, health and safety laws and other regulations as well as our own internal standards.

We present our Directors' Remuneration Report on pages 49 to 71.

Environmental matters
We currently outsource our research, development, testing and manufacturing activities. These activities are subject to various environmental, health and safety laws and regulations, which govern, among other things, the controlled use, handling, release and disposal of, including the maintenance of a registry for, hazardous materials and biological materials. If we or our partners fail to comply with such laws and regulations, we could be subject to fines or other sanctions.

As with other companies engaged in similar activities, we face a risk of environmental liability that is inherent in our current and historical activities, including liability relating to releases of or exposure to hazardous or biological materials. Environmental, health and safety laws and regulations are becoming more stringent. We may be required to incur substantial expenses in connection with future environmental compliance or remediation activities, in which case, production and development efforts being carried out by our outsourced partners relating to our products may be interrupted or delayed.

As noted in our Directors' report, a report on greenhouse gas emissions will be included in our annual report and accounts for the year ended December 31, 2020.

Dr. Peter Fellner	**Dr. Denise Scots-Knight**
Chairman	Chief Executive Officer
June 15, 2020	June 15, 2020

The financial statements contained within this annual report are presented on a consolidated Group basis prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted in the E.U. for the year ended December 31, 2019. Comparative data is shown on the same basis for the year ended December 31, 2018.

Financial KPIs
The directors consider that 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. Progress and performance against these key financial KPIs are discussed further in this financial review.

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; and
- Business development including partnering or out-licensing activities.

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

The following table sets forth Mereo's results of operations for the years ended December 31, 2018 and 2019.

	Year Ended December 31, 2018	2019
	(in thousands of pounds)	
Research and development expenses	(22,703)	(23,608)
Administrative expenses	(11,775)	(15,909)
Operating loss	(34,478)	(39,517)
Net income recognized on acquisition of subsidiary	–	1,035
Finance income	307	377
Finance charge	(3,091)	(3,496)
Net foreign exchange (loss)/gain	(44)	483
Loss before tax	(37,306)	(41,118)
Income tax benefit	5,277	6,274
Loss attributable to equity holders of the parent	(32,029)	(34,844)
Net fair value gain /(loss) on investments in debt instruments held at fair value	–	–
Exchange differences on translation of foreign operations	–	(499)
Total comprehensive loss attributable to equity holders of the parent	(32,029)	(35,343)

R&D expenses

The following table sets forth our R&D expenses by product development program for the years ended December 31, 2018 and 2019:

	Year Ended December 31, 2018	2019
	(in thousands of pounds)	
Setrusumab (BPS-804)	11,304	13,734
Alvelestat (MPH-966)	3,722	4,976
Leflutrozole (BGS-649)	5,091	1,089
Acumapimod (BCT-197)	2,285	388
Navicixizumab ("Navi")	–	1,721
Etigilimab	–	767
GITR-Fc [(1)]	–	432
Unallocated costs	301	501
Total R&D expenses	22,703	23,608

(1) Consists of R&D expenses incurred by OncoMed. Development of this candidate ceased during 2019.

Total R&D expenses increased by £0.9 million, or 4%, from £22.7 million in 2018 to £23.6 million in 2019.

Direct R&D expenses relating to setrusumab increased by £2.4 million, or 21%. The increase was driven primarily by the manufacture of additional drug product during 2019 which is planned to be used in upcoming clinical studies together with ongoing costs related to the adult Phase 2b study which reported top-line data in November 2019. R&D expenses relating to alvelestat increased by £1.3 million, or 34% to £5.0 million, reflecting a full year of costs for the Phase 2 proof of concept study, which commenced in the fourth quarter of 2018.

In total, £2.9 million of total R&D expenses in the current year is specific to programs acquired through the acquisition of OncoMed in April 2019 for which there is no relevant prior year comparative (Navi, Etigilimab and GITR-Fc). Of this, £1.7 million relates to Navi, which was subject to a global out-licensing agreement announced in January 2020. The licensee, Oncologie, assumed all future ongoing development costs following an agreed transition period to close out the existing Phase 1b study. Following completion of the Phase 1 study in 2019, further significant development for etigilimab has yet to be undertaken.

Largely offsetting the increase, R&D expenses relating to leflutrozole and acumapimod decreased by £5.9 million, or 80%. The decrease in spend was driven by the completion of the Phase 2b clinical study on leflutrozole in early 2019 and limited activity mainly relating to regulatory activity for acumapimod following the completion of the study.

Unallocated costs increased by £0.2 million to £0.5 million in 2019. This increase is attributable to certain R&D expenses incurred by OncoMed that are not allocated to a specific product development program.

Administrative expenses

Administrative expenses increased by £4.1 million, or 35%, from £11.8 million in 2018 to £15.9 million in 2019.

The increase was primarily due to an increase in costs following the acquisition of OncoMed. In particular, payroll costs increased by £1.2 million to £3.4 million in 2019. In addition, following the Company's listing on the Nasdaq Global Market, professional fees, including the significantly increased costs of Directors and Officers ("D&O") insurance, have increased by £1.0 million in 2019.

Following the adoption of IFRS 16 (Leases), right-of-use assets were recognized which are subsequently depreciated over their expected term of use. In 2019 this resulted in depreciation costs of £1.5 million in administrative expenses compared to £0.3 million in 2018 prior to the implementation of IFRS 16 (Leases).

Professional fees increased during the year from £1.5 million to £3.1 million reflecting higher costs associated with the Nasdaq listing and managing a larger business in two jurisdictions.

Transaction costs relating to the acquisition of OncoMed are presented separately and are included within net income recognized on acquisition of subsidiary (see below).

Net income recognized on acquisition of subsidiary
As OncoMed was acquired for an amount less than the fair market value of the net assets acquired on the date that control was obtained, a gain on bargain purchase of £3.7 million was realized (recognized net against the acquisition transaction costs within the consolidated statement of comprehensive loss). Total acquisition transaction costs amounted to £2.7 million which were wholly incurred in connection with the acquisition. Therefore, the net income recognized on acquisition of OncoMed was £1.0 million.

Finance income and charges
Total finance income was £0.4 million in 2019, up from £0.3 million in 2018. The increase was attributable to an increase in interest income earned on additional short-term investments acquired through the acquisition of OncoMed. All short-term investments were sold by December 31, 2019.

Total finance charges increased from £3.1 million in 2018 to £3.5 million in 2019. Following the adoption of IFRS 16 (Leases), interest costs on recognized lease liabilities of £1.3 million were incurred as an expense during the year. In the prior year, no such interest costs were recognized. In addition, non-cash interest costs on the bank loan increased by £0.8 million following modifications made to the terms of the bank loan following the refinancing in May 2019.

The increase in finance costs attributable to interest costs on lease liabilities and the bank loan was partly offset by fair value movements on outstanding warrants accounted for as a financial liability. The overall movement was a decrease in the value of the liability by £0.9 million up from £0.7 million in 2018, which is recorded as income. The increase in finance costs was further reduced by a re-classification of the loan modification loss occurring in 2018 as a finance charge resulting the increase in finance charges in 2018 of £0.7 million. In 2019 there was a corresponding loan modification gain of £0.5 million.Net foreign exchange gain / (loss).

The net foreign exchange gain for the year was £0.5 million, up by £0.5 million from a £nil million loss in 2018. The net foreign exchange gain consists of a £0.1 million foreign exchange loss on the translation of cash deposits which are primarily held in U.S. dollars throughout the year. The foreign exchange loss has been offset by a foreign exchange gain of approximately £0.6 million relating to the retranslation of U.S. dollar denominated intercompany funds held by an entity in the Group with a British pound functional currency.

Taxation
The tax credit for the year was £6.3 million, up by £1.0 million from 2018. The tax credit represents eligible cash rebates paid or receivable from the tax authorities in the jurisdictions within which we operate. In the U.K., certain subsidiaries within the Group qualify for cash rebates for eligible types of research and development activities and associated expenditure (the "R&D tax credit") which amounted to a total benefit of £5.1 million for 2019.

Further, in August 2019, OncoMed received a tax refund in respect of Alternative Minimum Tax ("AMT") of £1.1 million from the U.S. Internal Revenue Service ("IRS"), of which approximately £0.2 million has been recognized as income tax benefit during the year. It is currently estimated that an additional £1.0 million of tax refund in respect of AMT will be received in 2020 with respect to the current financial year.

As at December 31, 2019, total receivables related to tax credits previously recognized amount to £11.4 million, of which £10.4 million relates to R&D tax credit in the U.K. Included within the £10.4 million cash rebate is £5.3 million from the claim for the financial year ended December 31, 2018 as the amount was not repaid until early 2020. The claim for the financial year ended December 31, 2019 will be submitted around mid-2020 and the Group expects to receive an estimated claim amount of £5.1 million in the second half of 2020.

Loss per share
After taking account of the £3.3 million increase in loss attributable to equity holders and an increase in weighted average number of shares from 71.1 million to 89.4 million, basic and diluted loss per share for the year was 39 pence, down from 45 pence in 2018.

Adoption of IFRS 16 (Leases)
Effective January 1, 2019, the Group adopted IFRS 16 (Leases). The new standard introduces new or amended requirements with respect to lease accounting. In previous years, the Group's lease portfolio consisted of operating leases which have now been recognized on the balance sheet as a right-of-use asset, offset by a corresponding lease liability.

The total impact on assets on adoption was £2.5 million, offset by a lease liability recognized for the same amount. The lease portfolio on adoption consisted of a property lease and a number of specialist equipment leases for use in clinical trial activities.

Following the acquisition of OncoMed, a right-of-use asset of £10.8 million was recognized, offset by a lease liability of £10.7 million. The OncoMed lease portfolio consisted of a property lease in the U.S.

During the year ended December 31, 2019, total depreciation charges of £1.5 million and interest charges of £1.3 million have been recognized under IFRS 16 (Leases).

Acquisition of OncoMed Pharmaceuticals, Inc.
On April 23, 2019, we completed the acquisition of OncoMed, a California-based and Nasdaq-listed company, at which time OncoMed became an unlisted U.S. subsidiary of Mereo. At completion, we acquired cash and short-term deposits and short-term investments of £39.1 million. The estimated fair value of the intangible assets acquired was £12.7 million.

In connection with the acquisition, 24,783,320 ordinary shares were issued and listed on the AIM Market of the London Stock Exchange ("AIM"). On April 24, 2019, 4,956,664 American Depositary Shares ("ADSs") were listed on the Nasdaq Global Market, with each ADS representing five ordinary shares. Following completion of the acquisition, former OncoMed shareholders owned 25.8% of the enlarged share capital of the Group.

As a consequence of the license agreement with Oncologie (the "License Agreement"), and in accordance with the terms and conditions of the Contingent Value Rights Agreement (the "CVR Agreement") for former stockholders of OncoMed, dated April 23, 2019, by and among Mereo and Computershare Inc., as rights agent, holders of contingent value rights ("CVRs") pursuant to the CVR Agreement will be entitled to receive certain eligible cash milestone payments made to Mereo under the License Agreement .

Mereo accounts for the CVR Agreement as contingent consideration at fair value. As at December 31, 2019, the fair value of the contingent consideration is estimated at £0.4 million. As at acquisition date, the fair value of the contingent consideration was estimated at £nil. The estimated contingent consideration payable is based on a risk-adjusted, probability-based scenario. Under this approach, the likelihood of future payments being made to the former shareholders of OncoMed under the CVR Agreement is considered. The estimate could materially change over time in line with the development plan and subsequent commercialization of the Navi product.

Liquidity and capital resources

As of December 31, 2019, we had cash and short-term deposits and short-term investments (together "cash resources") of £16.3 million compared to £27.5 million as at December 31, 2018.

The table below summarizes our cash flows for the for the years ended December 31, 2018 and 2019:

	Year Ended December 31, 2018	2019
	(in thousands of pounds)	
Net cash used in operating activities	(23,139)	(45,931)
Net cash from investing activities	252	43,295
Net cash used in financing activities	(2,075)	(5,710)
Net decrease in cash and cash equivalents	(24,962)	(8,346)

Net cash used in operating activities for the year ended December 31, 2019 was £45.9 million, an increase of £22.8 from £23.1 million in 2018.

The loss for the year increased from £37.3 million to £41.1 million due to an increase in R&D activity and administrative expenses. This was impacted by a decrease in trade payables of £8.3 million and an increase in trade payables of £1.7 million in 2019 compared to 2018. There was also an increase in tax received of £2.8 million in 2019 compared to 2018.

In addition various non-cash items impacted 2019 compared to 2018 including the gain on bargain purchase on the acquisition of OncoMed of £3.7 million, a reduction in share based payment charges (including associated taxes) of £4.1 million, a modification gain of £0.5 million on the bank loan following the refinancing of debt was recorded compared to a modification loss of £0.7 million recorded in 2018 and an increase in finance charges of £0.9 million.

In previous years, the impact of tax credits has offset increase in operational expenditure. For the current year, tax credits received in cash decreased by £7.0 million to £1.1 million. Tax credits of £1.1 million received during the current year relate in part to a refund of Alternative Minimum Tax ("AMT") in the U.S. following the acquisition of OncoMed. In addition, Tax credits received in cash during the current year in the UK decreased compared to the prior year as the Group had not yet received repayment of the 2018 R&D tax credit from the U.K. tax authorities in 2019, this being received in early 2020. As at December 31, 2019, total receivables related to tax credits previously recognized amount to £11.4 million, of which £10.4 million relates to R&D tax credit from the U.K. tax authorities being the balance due for FY 2018 and the credit recognized for FY 2019.

Net cash from investing activities was £43.3 million in 2019, up from £0.3 million in 2018. The increase was due to the acquisition of OncoMed in April 2019, which provided a net cash inflow on acquisition of £10.1 million and receipt of £32.9 million of short-term investments in the form of short-dated US treasuries, all of which were sold by December 31, 2019.

Net cash used in financing activities was £5.7 million in 2019, an increase of £3.6 million from 2018. The increase is attributable to the payment of lease liabilities, now reported as a financing activity following the adoption of IFRS 16 (Leases) and an increase in the value of treasury shares purchased in the current year compared with the prior year. Total payments of lease liabilities amounted to £2.2 million during the year of which £1.3 million related to the US facility acquired with OncoMed in April 2019.. Treasury shares of £1.0 million were purchased during 2019 compared with £0.3 million in 2018.

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.

Subsequent to the end of the financial year, the Company has entered into certain arrangements which provide additional liquidity and capital resource. Those arrangements include:

- On January 13, 2020, the Company announced the License Agreement with Oncologie for the development and commercialization of Navi. Under the terms of the License Agreement, the Company received an upfront payment of £3.2 million ($4 million) with an additional payment of £1.6 million ($2 million) conditional on a Chemistry, Manufacturing and Controls ("CMC") milestone. Additionally, the Company will be eligible to receive up to $300 million in future milestones and royalties.
- On February 10, 2020, the Company entered into a £3.8m million convertible equity financing with Novartis. Under the terms of the convertible equity financing, Novartis purchased £3.8 million in a convertible loan note. The loan note is convertible at any time at a fixed price of £0.265 per ordinary share. In connection with the loan note, the Company issued a warrant instrument to Novartis to purchase up to 1,449,614 of the Company's ordinary shares.
- On February 10, 2020, the Company entered into a Securities Purchase Agreement to issue up to £22.4 million ($28 million) $28 million of the Company's ordinary shares exchangeable for American Depositary Shares, including a £2.4 million ($3 million initial purchase, with Aspire Capital Fund, LLC. In exchange for the £2.4 million ($3 million) initial purchase the Company issued 11,423,925 ordinary shares (equivalent to 2,286,585 ADSs).
- On February 19, 2020, the Company entered into a Securities Purchase Agreement with Boxer Capital, LLC to make an investment of £2.4 million ($ 3 million) to purchase 12,252,715 of the Company's ordinary shares (equivalent to 2,450,543 ADSs).
- On June 4, 2020 the Company announced the completion of a £56 million ($70 million) fundraising, or approximately £51.4 million ($64.2 million) net from the issue of equity, loan notes and warrants to new and existing shareholders.

Financial Outlook

Under the current business plan and cash flow forecasts, with ongoing research and development efforts focused on etigilimab, our oncology product candidate and on our rare disease product candidates, setrusumab and alvelestat, and taking into account our recently completed fundraising which raised approximately £51.4 million ($64.2 million) of net funds, we expect that our current on-hand cash resources will extend to early 2022.

Richard Jones
Chief Financial Officer

June 15, 2020

Risk factors

We are a biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for patients with oncology and 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 and commercialization is inherently uncertain.

The Audit and Risk Committee ("ARC") 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 in the assessment of the risk 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
Health epidemics and other widespread outbreaks of contagious disease	Significant outbreaks of contagious diseases, and other adverse public health developments, could have a material impact on our business operations and operating results. In December 2019, a strain of novel coronavirus, COVID-19, which causes respiratory illness emerged in the city of Wuhan in the Hubei province of China. The Chinese government has taken certain emergency measures to combat the spread of the virus, including implementation of travel bans and closure of factories and businesses.	We are actively monitoring how the effects and risks of COVID-19 impact our day-to-day operations, including our ongoing clinical trial activities: • Our current activities on setrusumab for potential treatment of OI are focussed on preparations for the Phase 3 pediatric trial, which, subject to partnering, we intend to start in the second half of 2020 and this may be subject to delay. Our Phase 2b ASTEROID study in OI is fully recruited with topline results, as discussed above, previously announced in November 2019. Patients who enrolled in this study are in a one-year follow up post treatment extension phase.	**New risk**

Risk	Description	Mitigation and developments to date	Change
Health epidemics and other widespread outbreaks of contagious disease	Since that time, similar measures have extended broadly across the globe as the virus has spread. Multiple other countries throughout the world, including the U.K. and U.S., have been affected by the spread of the virus and have implemented a variety of measures aimed at reducing or halting the spread of the infection. The World Health Organisation ("WHO") has declared it at pandemic status. We continue to monitor the global spread of COVID-19 and have put in place and will continue to put in place measures as appropriate and necessary for our business. Any prolonged deviations from normal daily operations could negatively impact our business.	• Our Phase 2 alvelestat trial recruits individuals with alpha-1 antitrypsin deficiency-related lung disease, who are potentially at greater risk from COVID-19 exposure. As a result, recruitment into our Phase 2 alpta-1 antitrypsin study will be delayed, with topline data now expected in the second half of 2021. • As a business, we have taken necessary measures across our sites in the U.K. and U.S. to ensure that our employees and other key stakeholders best adhere to the advice set out by the relevant authorities. Such measures have included the introduction of remote working arrangements, reduced face to face contact by encouraging the use of teleconferencing, a ban on domestic and international travel as well as other measures considered necessary by our newly formed COVID-19 committee which is responsible for business continuity planning during this challenging time. Any prolonged disruption of our clinical trials, suppliers or contract manufacturers, closures of facilities, such as clinical trial sites, suppliers, manufacturers and distributors, including single-source suppliers could impact our ability to advance our development programs as planned, and could have impacts such as delaying regulatory approvals or the commercialization of any current or future products.	**New risk**

Risk	Description	Mitigation and developments to date	Change
Integration of OncoMed	In April 2019, we completed the acquisition of OncoMed. Acquisitions inherently have risks, including misjudging key elements in an acquisition or failing to integrate the acquired company in an efficient and timely manner which would disrupt operations.	We have now completed a financial year with OncoMed as part of the Group and have successfully integrated the business, people and development programs. In January 2020, we announced a global out-licensing deal for navicixizumab, a product previously developed by OncoMed. Our license partner, Oncologie, Inc. ("Oncologie") has assumed future development and commercialization rights. Following the acquisition of OncoMed, we conducted a thorough assessment of the integration requirements and established an integration plan, including working methods. We restructured the Mereo management team to fully integrate OncoMed into the Group. From the completion of the acquisition of OncoMed, we have taken steps to align and integrate OncoMed's quality process and policies and procedures with those of the Group.	**Decrease**

Risk	Description	Mitigation and developments to date	Change
Further successful development of product candidates	Our existing portfolio consists of six clinical-stage product candidates. Our oncology product candidates etigilimab and navicixizumab and our rare disease, "orphan" product candidates, setrusumab and alvelestat, have generated positive clinical data for their target indications or for a related indication. We plan to partner or sell our existing non-oncology/ non-rare disease product candidates, leflutrozole and, acumapimod. Our portfolio remains under development. Whilst we have made substantial progress throughout 2019, our ability to successfully further develop our product candidates could be influenced by several factors. Those factors include 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 enrolment of patients into clinical trials, including if other competing clinical trials are initiated in the same therapeutic area; 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 that are designed to validate the quality of data generated from our clinical trials. During the year ended December 31, 2019, the following achievements are notable across our product portfolio: **Etigilimab** In 2019 we completed a Phase 1b combination study of etigilimab in selected tumor types with two patients of eight evaluable showing a partial and stable response. **Navicixizumab ("Navi")** In January 2020 we announced a global license agreement with Oncologie, Inc. ("Oncologie"), for the development and commercialization of Navi. Under the terms of the global license agreement, Oncologie will receive an exclusive worldwide license to develop and commercialize Navi in return for potential milestones and royalties.	**No change**

Risk	Description	Mitigation and developments to date	Change
Further successful development of product candidates		**Setrusumab** In September 2019, Dr. Arun Mistry was appointed as the Therapeutic Area Head for Setrusumab. In November 2019, we announced positive results from the Phase 2b dose-ranging clinical study. The study was the largest, prospectively designed, interventional clinical study to be performed in the selected patient group. The topline results from the study demonstrated a clear, dose-dependent, statistically significant bone building effect of setrusumab at multiple anatomical sites in adult OI patients, irrespective of OI subtype. Additional data analyses continue; and further positive results regarding setrusumab effect on bone stiffness and strength were published in January 2020. In February 2020 we announced positive feedback from Type B End-of-Phase 2 Meeting with the U.S. Food and Drug Administration ("U.S. FDA") in which the U.S. FDA agreed the design of our planned Phase 3 pediatric study. The European Medicines Agency ("EMA") had already given in principle agreement in August 2018. As such, the pivotal trial is planned to commence in late-2020 subject to completion of a strategic partnership. **Alvelestat** In late 2018 we commenced a Phase 2, 12-week randomized, placebo-controlled Phase II proof-of-concept clinical trial evaluating two doses of alvelestat versus placebo that is expected to enrol approximately 165 patients. It is now expected that top line data will be reported in the second half of 2021 and, if the results are positive, regulatory advice on the design of a pivotal trial in the U.S. and the E.U. will be sought.	**No change**

Risk	Description	Mitigation and developments to date	Change
Further successful development of product candidates		**Leflutrozole** Following the completion of the Phase 2 dose-ranging clinical trial, in April 2019, we announced a successful end of Phase 2 meeting with the U.S. FDA. In the meeting, a development plan for the product was agreed with the U.S. FDA. In September 2019, we had a meeting with the EMA's Scientific Advice Working Party ("SAWP") that resulted in positive guidance on the next development steps for the program.	**No change**
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 a failure on the part of the CMO to adhere to regulatory requirements. In addition, setrusumab is a large molecule monoclonal antibody, which, as a result, has a more complex manufacturing process than our other small molecule candidate products. In addition, setrusumab is of the IgG2 type subclass monoclonal antibody. The IgG2 subclass is known for having a tendency to reversibly self-associate and this can cause an opalescent appearance to the liquid antibody formulation, which can be mediated by protein concentration, pH and temperature. The presence of an opalescence in the solution does not have an impact on product potency and effectiveness and does not generally correlate with the formation of aggregates or particles.	In August 2019, Richard Francis was appointed as Head of Pharmaceutical Development. 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. Specific to setrusumab, studies are being conducted to in order to minimize any risk of significant opalescence or of aggregate formation. Whilst we have recently conducted several large scale manufacturing runs of drug substance and drug product at third-party CMOs without observing any opalescence, there can be no assurances that this opalescence will not occur in future manufacturing runs.	**No change**

Risk	Description	Mitigation and developments to date	Change
Successful commercial-ization	We operate in a highly competitive and rapidly changing industry, which may result in others acquiring, developing or commercializing competing product candidates before, or more successfully than we do. Future success for the Group is dependent on obtaining a commercial return from products, either by entering into arrangements with third parties for commercialization or commercializing certain product candidates ourselves. At present, none of our existing portfolio is commercialized as yet, because all our candidate products remain under development and have yet to receive approval / marketing authorization, which is an essential pre-requisite to pharmaceutical launch and commercialization. Our ability to obtain a commercial return on product candidates could be influenced by a number of factors in addition to receiving approval /marketing authorization including the ability to establish effective sales and marketing capabilities; the ability to enter into product divestment, licensing or co-commercialization 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 pricing and reimbursement for product candidates commercialized by Mereo; and physician and patient acceptance of product candidates approved for commercial sale, amongst others.	For our rare disease programs, we engage with regulators, health technology assessment ("HTA") bodies, treating physicians and patient representative organisations at all stages of our development. Setrusumab has been designated a Priority Medicine in Europe under the EMA's PRIME scheme. As such, we benefit from ongoing advice from regulators, payers and HTA bodies on an ongoing basis. We are also in regular dialogue with the European payers through the Mechanism of Coordinated Access to Orphan Medicinal Products ("MoCA"). This work will be extended to the U.S. payers following the receipt of positive feedback from the U.S. FDA about our planned Phase 3 pivotal pediatric trial. Treating physicians, notably those in the lead Centres of Expertise are part of our development work on an ongoing basis; and we also consult regularly with the patient representative organisations from the therapeutic areas we intend to address with setrusumab and alvelestat in particular. Market research work, including pricing, has been initiated for our two rare disease candidate productsWe constantly monitor development programs from other companies in our target indications, to allow us to effectively understand and evaluate the competitive landscape for etigilimab, setrusumab and alvelestat on an ongoing basis. We have commenced licensing and/or partnering discussions for setrusumab, acumapimod and leflutrozole and these discussions are ongoing.	**No change**

Risk	Description	Mitigation and developments to date	Change
Successful commercial-ization	In addition, if etigilimab, setrusumab, alvelestat, acumapimod, or leflutrozole is approved and launched on the market, we will face intense competition from a variety of businesses, including large, fully integrated pharmaceutical companies, other rare disease pharmaceutical or biotechnology companies, non-rare pharmaceutical and biopharmaceutical companies in the U.S., Europe and other jurisdictions.		**No change**
Failure to obtain regulatory approvals	We operate in a highly regulated industry, giving rise to a number of risks that could affect the development and commercialization of our product candidates, including the ability to obtain required regulatory marketing approvals. The regulatory approval processes of the U.S. FDA, the EMA and comparable foreign authorities are lengthy, time consuming, and with inherently unpredictable outcomes, because they rely on third-party decisions outside of our control. If we are ultimately unable to obtain regulatory approval for our product candidates, our business will be impacted. Even if any of our product candidates obtains regulatory approval, we will be subject to ongoing obligations and continued regulatory review including potential additional studies or data generation, which may result in significant additional time and expense.	Following the acquisition of OncoMed, Jill Henrich joined the management team as the U.S. Site Head and SVP of Regulatory Affairs, bringing significant expertise and experience to the Company. To supplement our experienced in-house team, we work with several specialized regulatory advisors to give guidance on regulatory strategy for each of our candidate products. As our programs continue through their respective development plans, the relative risk that we fail to obtain regulatory approval continues to decrease. Matters that remain outside our control, e.g., the scientific performance of a compound in a clinical study, or the ultimate decision-making of a regulatory body, are mitigated by dialogue with decision-makers and rigorous study preparation and design. In July 2019 we announced a successful Type B meeting for Navicixizumab in which the outline of a Phase 2 registrational trial was agreed through an accelerated pathway. Navicixizumab was also granted Fast Track designation.	**Decrease**

Risk	Description	Mitigation and developments to date	Change
Failure to obtain regulatory approvals	Regulatory approval of any product candidate in a major market, such as the U.S. or E.U., does not guarantee that we are able to obtain reimbursed inclusion in government healthcare systems or by private insurance providers. Regulatory approval to commercialize that product in one jurisdiction does not guarantee that we are able to receive such authorisation in other markets.	In January 2020 we announced positive feedback from a Type B End-of-Phase 2 meeting with the U.S. FDA in which the U.S. FDA also agreed the design of our planned Phase 3 pediatric study for setrusumab in OI. This is in line with our proposed pivotal paediatric study design that has already been agreed to in principle with the EMA.	**Decrease**
Continued compliance with new laws and regulations	We face an ever-increasing amount of corporate regulation as a dual-listed publicly traded company based both in the U.S. and U.K. We are subject to the U.K. Bribery Act, the U.S. Foreign Corrupt Practices Act and other anti-competition laws, as well as export control laws, customs laws, sanctions laws and other laws governing our operations. If we fail to comply with these laws, we could be subject to civil or criminal penalties, other remedial measures, and legal expenses, which could adversely affect our business, results of operations and financial condition. As a Foreign Private Issuer ("FPI"), we are required to comply with the reporting regime under the U.S. Exchange Act, and will incur significant legal, accounting and other expenses should we deviate from this. Our management is now required to devote substantial additional time to new compliance initiatives, financial controls and monitoring activities and corporate governance matters. With respect to the 2019 financial year, we provided attestation under Section 404(a) of the Sarbanes-Oxley Act of 2002 for the first time.	Following our U.S. listing of our American Depository Shares ("ADSs") in 2019, we introduced new policies and procedures to ensure that our business practices are aligned with those expected of a dual-listed Company in the U.S. and the U.K. This has included updates to the Terms of Reference for the Board Committees which are available for inspection on our website. The Group's General Counsel and Company Secretary, who serves as an Executive Officer, is responsible for ensuring compliance with laws and regulations. For certain matters, the Company will engage external counsel or regulatory advisors. Substantial progress was made during the year, ahead of providing attestation under Section 404(a) of the Sarbanes-Oxley Act of 2002. Measures taken included creating a Risk and Control Matrix ("RACM") for financial processes and controls, evaluating our internal control framework and involving our Audit and Risk Committee ("ARC") throughout the transition process.	**Increase**

Risk	Description	Mitigation and developments to date	Change
Brexit	The U.K. formally exited the European Union ("E.U.") on January 31, 2020. Under the terms of the departure, the U.K. will enter a transition period during which it will continue to follow all E.U. rules and the trading relationship will remain the same. The transition period is scheduled to end on December 31, 2020. Long-term effects of Brexit will depend on agreements and arrangements that the U.K. negotiates with the E.U. following the end of the transition period, including whether and to what extent the U.K. will retain access to the E.U. markets after the transition period. This uncertainty 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 and the E.U. Commission as well as national competent authorities in the E.U. Member States.	We continue to actively monitor the developments relating to the U.K.'s exit from the E.U. and will remain alert to any developments that may impact our business or the wider industry. In 2018, we established a wholly owned Irish subsidiary that now holds our E.U. orphan designation and acts as our E.U. representative for all ongoing E.U. clinical studies, regulatory dialogue and eventual regulatory submissions.	**No change**

Risk	Description	developments to date	Change
Cybersecurity risks including loss of data	Cybersecurity continues to increase in importance to mitigate the threat to data privacy, the protection of confidential data and the effective functioning of the Company's infrastructure. The threat from online attacks or data breaches continues to increase, becoming more complex for all companies and we are no exception.	During the year we continued to implement further controls over our cybersecurity. Following the acquisition of OncoMed, we performed a full review of the OncoMed IT environment. We also implemented group cybersecurity policies in the U.S., which included upgrading software and hardware. Further, in early 2020 we moved our IT hardware in the U.S. into a more secure off-site specialist data centre. We also regularly test our IT control environment and our personnel and undertake additional employee training measures where required, based on the outcome of this testing. Where relevant, we obtain external third-party support to the extent that risks evolve or require specialist consideration. Since 2019, our IT control environment is also subject to evaluation under Section 404(a) of the Sarbanes-Oxley Act of 2002, with relation to financial accounting and reporting processes	**No change**
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 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. The etigilimab patent portfolio contains one core patent family that covers the product per se as well as medical uses thereof. Patents in this family will expire in 2036. The portfolio also includes a second patent family that relates to specific methods of treatment using etigilimab. Patents that issue from this family will expire in 2037	**No change**

Risk	Description	developments to date	Change
Continued maintenance of strong intellectual property (IP) portfolio	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.	Our key patents for setrusumab include claims directed to the antibody itself as well as the antibody's use as a medicinal product. 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 setrusumab antibody also has orphan status in both the U.S. and the E.U. Two families of patents for alvelestat have been licensed under our agreement with AstraZeneca. The first family includes claims to the alvelestat compound and its uses, and these patents will expire in 2024. The second family includes claims to the specific tosylate salt form of the alvelestat compound and these patents will expire in 2030. Further patent applications have recently been filed relating to dosage regimens for alvelestat, which, if granted, will expire in 2041. The leflutrozole (BGS-649) patent portfolio includes claims directed to leflutrozole formulations and to the use of leflutrozole in treating hypogonadism according to a specific dosing regimen, with expiry dates in 2032.	**No change**

Risk	Description	developments to date	Change
Continued maintenance of strong intellectual property (IP) portfolio		The first patent family of our acumapimod patent portfolio relates to the acumapimod 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 acumapimod, the use of acumapimod in the treatment of specific patient subpopulations, methods of producing specific polymorphs of acumapimod and synthetic methods of production of acumapimod, with expected expiry dates not earlier than between 2036 and 2039. The patent portfolio relating to Navi contains two core patent families, both of which cover the product per se as well as medical uses thereof. Patents and patent applications, if issued, in these core families are expected to expire between 2030 and 2032. The portfolio also includes several other patent families including issued U.S. and foreign patents and pending applications that relate to specific methods of treatment using Navi. Patents and patent applications, if issued, in these families are expected to expire between 2030 and 2039. Navi was licensed by the Group to Oncologie Inc. in January 2020 pursuant to the terms of a global licensing agreement.	**No change**

Risk	Description	developments to date	Change
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 the 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. Mereo has significant expenditures in US Dollars and Euros; consequently, our financial results could be adversely impacted by foreign currency movements.	As at May 31, 2020 the Group had total cash resources (being cash and short term deposits and short term investments) of £10.1 million. Taken together with the private placement which completed on June 3, 2020 and which raised net proceeds of approximately £51.4 million, the group has current total cash resources of £61.5 million. The Directors have prepared detailed cashflow forecasts for the 30-month period to December 31, 2022 based on the delivering the business plan objectives set out in the strategic report which include: • Commencement later in 2020 of a new Phase 1b study for etigilimab • Completion of the adult extension study for setrusumab • Completion of the current Phase 2 study for alvelestat These forecasts indicate that the group has a total cash runway into 2022 and will have sufficient funds to meet its liabilities as they fall due for at least the next 12 months.	**Decrease**

Risk	Description	developments to date	Change
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 not only successfully develop and commercialize our existing product candidates but also to identify and successfully onboard further product candidates as well as to integrate such products into our business. Our operations may be adversely impacted if we are unable to successfully accomplish this; or are unable to comply with the terms of licensing or acquisition agreements and applicable laws and regulations, including data privacy, amongst others.	We continue to attract highly experienced people and continued to expand our team in terms of numbers and breadth of speciality industry-relevant experience. During 2019 we grew from a total of 37 to 50 full-time employees, which includes the new employees from the acquisition of OncoMed as well as an increase in our U.K. employee base. The OncoMed team is now fully integrated into the Group and we welcome the valuable additional operational capabilities and expertise that they bring to the Group, which is a critical part of our continued business growth strategy and execution. We reviewed our incentive arrangements during the year and have implemented new long-term incentives in April 2019, which will allow us to incentivize and retain employees across the Group. We granted options under these new schemes to both employees and Non-Executive Directors in 2019 and early 2020. Further details are set out in our Director's Remuneration Report on pages 49 to 71.	**No change**

This strategic report, which has been prepared in accordance with Companies Act 2006, has been approved and signed by order of the Board:

Dr. Peter Fellner
Chairman

June 15, 2020

Dr. Denise Scots-Knight
Chief Executive Officer

June 15, 2020

Chairman's governance overview

I am pleased to present the Corporate Governance Report for the year ended December 31, 2019.

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, 2019 and up to the date of this report in 2020.

The Board also takes into consideration how the Group's growth may result in the evolution of the corporate governance framework. Following completion of the acquisition of OncoMed in April 2019, 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. Throughout 2019 and up to the date of this report, those terms of reference have been consistently applied in the activities performed by the Board Committees.

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 behaviours 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.

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.

The Nasdaq Global Market and U.S. securities laws

Following completion of the acquisition of OncoMed and the listing of American Depositary Shares ("ADSs"), 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 ("EGC") (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 EGC, 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.

Other Board reports

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

- Audit and Risk Committee Report, see page 46 to 48
- Directors' Remuneration Report, see pages 49 to 71

The Board and Board changes

As at the date of this report the Board comprises the Chairman, two Executive Directors and six Non-Executive Directors. The Board considers there to be sufficient independence on the Board and that all the Non-Executive Directors are of sufficient competence and calibre 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 43 to 45.

On March 27, 2020, we announced that Michael Wyzga who currently serves as a Non-Executive Director, will become the Interim Chief Financial Officer following the announced departure of Richard Jones, the Company's current Chief Financial Officer ("CFO"). Richard Jones will remain in his position as CFO for a transitionary period of up to five months.

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

In recognition of OrbiMed's participation in, and assistance with, the Fundraising, the Company has agreed to grant OrbiMed the right to nominate two persons to be appointed to the Board of Directors (out of a maximum number of nine directors), within a period of 180 days from 3 June 2020 subject to the appropriateness of the nominees.

Our Non-Executive Directors currently have a limited number of equity incentive awards issued to them from the Mereo BioPharma Group Limited Share Option Plan (the "2015 Plan") or the 2019 Non-Executive Director Equity Incentive Plan (the "NED EIP"). Equity incentive awards awarded to Non-Executive Directors are discussed in further detail in the Directors' Remuneration Report. Considering the limited number of equity incentive awards issued to Non-Executive Directors, the Board does not consider that the awards impact the independence of the Non-Executive Directors.

Dr. Peter Fellner, Peter Bains, Paul Blackburn, Kunal Kashyap, Dr. Anders Ekblom, Michael Wyzga and Dr. Deepa Pakianathan qualify as "independent" under U.S. securities laws and Nasdaq rules.

Name	Date of appointment
Non-Executive Directors	
Dr. Peter Fellner	July 29, 2015
Frank Armstrong[1]	July 29, 2015
Peter Bains	July 29, 2015
Paul Blackburn	October 6, 2015
Dr. Anders Ekblom	July 29, 2015
Kunal Kashyap	July 29, 2015
Michael Wyzga	April 23, 2019
Dr. Deepa Pakianathan	April 23, 2019
Executive directors	
Dr. 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

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 that 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 Non-Executive Directors; and
- Approval of communications with shareholders and the market.

There is a clear separation of the roles of the Chief Executive Officer and the 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 Non-Executive Directors 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 ("AGM") and, if no other director is elected to fill his or her position, and if the director is willing, shall be re-elected by default. The current term for all our directors expires in 2021, except for Richard Jones, whose current term expires in 2020 and who will not be standing for re-election, and for Michael Wyzga and Dr. Deepa Pakianathan, whose current terms expire in 2022 following their re-appointment at our last AGM held on June 19, 2019.

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 Nominated Advisor ("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 Dr. Deepa Pakianathan as additional Non-Executive Directors of the Company on completion of the acquisition of OncoMed.

Attendance at Board and Committee meetings

There were ten Board meetings during 2019. Directors' attendance at Board and Committee meetings was as follows:

	Board (out of 10)	Remuneration Committee (out of 4)	Audit and Risk Committee (out of 8)	R&D Committee (out of 4)	Nomination Committee (out of 1)
Current directors					
Dr. Peter Fellner	10	n/a	n/a	n/a	1
Peter Bains	10	4	n/a	3(1)	1
Paul Blackburn	10	n/a	8	n/a	n/a
Dr. Anders Ekblom	10	4	4(2)	4	1
Kunal Kashyap	10	n/a	8	n/a	n/a
Michael Wyzga(3)	7	n/a	4	n/a	n/a
Dr. Deepa Pakianathan(4)	6	1	n/a	2	n/a
Dr. Denise Scots-Knight	10	n/a	n/a	n/a	n/a
Richard Jones	10	n/a	n/a	n/a	n/a
Past directors					
Frank Armstrong(5)	1	1	n/a	1	n/a

(1) Peter Bains was absent for one R&D Committee meeting because of personal reasons.

(2) Anders Ekblom served as a member of the Audit and Risk Committee for part of the year. Anders Ekblom has attended all scheduled meetings.

(3) Michael Wyzga was appointed to the Board of Directors on April 23, 2019. Since that date, Michael Wyzga has attended all scheduled meetings.

(4) Deepa Pakianathan was appointed to the Board of Directors on April 23, 2019. Since that date, Dr. Deepa Pakianathan has attended all scheduled meetings except one Board meeting because of personal reasons.

(5) Frank Armstrong resigned from the Board 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. All Board and relevant Committee meetings through 2019 were fully attended except for the two instances noted above (relating to a Board meeting and a R&D Committee meeting) due to personal reasons.

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 acquisition of OncoMed, the composition of the sub committees was reviewed. These and other changes were implemented as noted below.

Audit and Risk Committee

Paul Blackburn (Chair)
Kunal Kashyap
Michael Wyzga (from May 1, 2019)
Dr. Anders Ekblom (until May 1, 2019)

Remuneration Committee

Peter Bains (Chair from May 1, 2019)
Dr. Anders Ekblom (Chair until May 1, 2019)
Dr. Deepa Pakianathan (from May 1, 2019)
Frank Armstrong (until February 8, 2019)

Nomination Committee

Dr. Peter Fellner (Chair)
Peter Bains
Dr. Anders Ekblom
Frank Armstrong (until February 8, 2019)

Research and Development Committee
Dr. Anders Ekblom (Chair from May 1, 2019)
Frank Armstrong (Chair and member until February 8, 2019)
Peter Bains
Dr. Deepa Pakianathan (from May 1, 2019)

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.

Audit and Risk Committee
The Audit and Risk Committee, which consists of Paul Blackburn, Kunal Kashyap and Michael Wyzga, assists the Board in overseeing our accounting and financial reporting processes and the audits of our financial statements. Mr. Blackburn serves as Chairman of the Audit and Risk Committee.

The Audit and Risk Committee consists exclusively of members of our Board who are financially literate, and Paul Blackburn is considered an "audit committee financial expert" as defined by applicable SEC rules and has the requisite financial sophistication as defined under the applicable Nasdaq rules and regulations. Our Board has determined that all of the members of the Audit and Risk Committee satisfy the "independence" requirements set forth in Rule 10A-3 under the Exchange Act. The Audit and Risk Committee is governed by a charter that complies with Nasdaq rules.

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 for the purpose of preparing or issuing an audit report or performing 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 their conclusions to the full Board on at least an annual basis;
- Reviewing and discussing our financial statements and our financial reporting process with the executive officers, the Board and the independent auditor; 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 Committee meets as often as one or more members of the Audit and Risk Committee deem necessary, but in any event meets at least four times per year. The Audit and Risk Committee meets at least once per year with our independent auditor, without our senior management being present.

The Audit and Risk Committee Report is presented on pages 46 to 48.

Remuneration Committee
The Remuneration Committee, which consists of Peter Bains, Dr. Deepa Pakianathan and Dr. Anders Ekblom, assists the Board in determining senior management compensation. Mr. Bains serves as Chairman of the committee. Under SEC and Nasdaq rules, there are heightened independence standards for members of the Remuneration Committee, including a prohibition against the receipt of any compensation from the Company other than standard board member fees. However, foreign private issuers are not required to meet this heightened standard. Nonetheless, our Board has determined that Peter Bains, Dr. Deepa Pakianathan and Dr. Anders Ekblom meet this heightened standard. The Remuneration Committee is governed by a charter that complies with Nasdaq rules.

The Remuneration Committee's responsibilities include:

- Identifying, reviewing, and proposing policies relevant to senior management compensation;
- Evaluating each member of senior management's performance in light of 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.

Following the Company's listing on the Nasdaq Global Market, it is required to publish a Directors' Remuneration Report, because the Company meets the definition of a "quoted company" as defined in Section 385 of the Companies Act 2006. The Directors' Remuneration Report for the financial year ended December 31, 2019, is presented on pages 49 to 71.

Nomination Committee
The Nomination Committee, which consists of Dr. Peter Fellner, Peter Bains and Dr. Anders Ekblom, 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. Dr. Peter Fellner serves as Chairman of the Nomination Committee. The Nomination Committee is governed by a charter that complies with Nasdaq rules.

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
The Research and Development Committee, which consists of Dr. Anders Ekblom, Peter Bains and Dr. Deepa Pakianathan, assists our senior management with oversight and guidance related to strategic research and development matters and provides guidance and makes recommendations to our Board regarding strategic research and development matters. Dr. Anders Ekblom serves as Chairman of the Research and Development Committee.

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

- Our strategic development plans for product candidates, taking into account any regulatory feedback; and
- The acquisition of new product candidates.

In addition, the Research and Development Committee is tasked with keeping the Board informed of strategic issues and commercial changes affecting our development programs and potential product acquisitions.

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.

General Data Protection Regulation ("GDPR")
Prior to the adoption of GDPR in 2018 we updated our data protection guidelines, training and processes. Throughout the year we have continued to maintain and update these guidelines, training and processes, including targeted awareness sessions delivered to our employees.

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 Committee Report on page 46 to 48. Details of our principal risks are set out on pages 20 to 34.

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 fair and 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.

With respect to the financial year ended December 31, 2019, the Board acknowledges the steps taken by management and the Audit and Risk Committee to ensure appropriate actions are taken with respect to the requirement to provide attestation over Section 404(a) of the Sarbanes-Oxley Act of 2002.

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, as Chairman, 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")
This year's AGM of the Company will be held on June 29, 2020. The notice of AGM, which includes all proposed resolutions, has been posted to shareholders and is available on the Group's website www.mereobiopharma.com. All shareholders will have had at least 21 days' notice of the AGM.

Due to COVID-19 and the current social distancing measures set out by the UK Government, the Company's AGM will be a closed meeting. As iterated in the Company's press release on May 22, 2020, this means that ordinary shareholders will not be allowed to attend the AGM in person and any ordinary shareholder seeking to attend the AGM in person will be refused entry.

Under the Companies Act 2006, the directors of a public company are required to lay its annual report and accounts before the company in general meeting (an "accounts meeting") by no later than the end of the period for the filing of those reports and accounts with the Registrar of Companies. The period for filing the annual report and accounts is ordinarily six months from the accounting reference date. There is a separate requirement under the Companies Act 2006 for a public company to hold an AGM within the period of six months from its accounting reference date.

Ordinarily the Company's AGM would also serve as its accounts meeting. However, in response to the COVID-19 pandemic, Companies House has allowed companies to apply for a three-month extension of time to file their accounts. The Company has applied for, and been granted, such an extension in respect of its annual report and accounts for the financial year ended December 31, 2019 (the "Annual Accounts"). The Company announced and published the Annual Accounts on June 16, 2020, however the extension allows until September 30, 2020 to file the Annual Accounts, if required.

In light of this extension, the Company's accounts meeting may now be held as a general meeting no later than September 30, 2020. However, the Company is currently still required to hold its AGM by June 30, 2020, hence the meeting going ahead as stated above. It is noted that the Annual Accounts will not be able to be sent out to shareholders in sufficient time ahead of the AGM and therefore will not be laid before the AGM but at a general meeting of the Company to be convened and held prior to September 30, 2020.

Our employees
Our employee base includes key people in strategic areas including in corporate development, patient access and commercial planning, as we move our rare disease programs forward and seek to partner our speciality products. We have been fortunate to attract and retain highly experienced individuals in clinical development, clinical operations, manufacturing, intellectual property and quality assurance, supporting them with strong leadership at the executive and Board level.

Our internal expertise is leveraged with external organisations, including contract research organisations ("CROs") and contract manufacturing organisations ("CMOs") as well as bespoke consulting agreements. This combination has allowed the Group to initiate international clinical trial studies within a relatively short period of time since acquiring products from large pharma, whilst also maintaining a lean internal infrastructure.

Across the U.K. and the U.S., we now have approximately 45 employees. Mereo 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 Group'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 General Counsel. Employees may also contact a dedicated whistleblowing hotline, independent of the Group, if anonymity is sought.

The Group is fully committed to the elimination of unlawful and unfair discrimination and values the differences that a diverse workforce brings to the organization. The Group endeavours to not discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. This is captured in our Employee Handbook, which all employees are required to read and acknowledge on an at least annual basis. The Group 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.

A breakdown of employment statistics by gender as at December 31, 2019 is as follows:

Position	Female	Male	Total
Directors of the Company (CEO, CFO and Non-Executive)	2	7	9
Executive officers	2	3	5
Employees	18	18	36
Total	22	28	50

Executive officers consist of senior managers who have responsibility for planning, director or controlling the activities of the Group. As at December 31, 2019, this includes the Chief Medical Officer, General Counsel and Company Secretary, Head of Corporate Development, Head of Patient Access and Commercial Planning and U.S. Site Head and SVP Regulatory Affairs.

Our Directors have significant operational experience in leadership positions in large and small pharmaceutical and biotechnology companies. They provide valuable strategic input into our corporate development programs and our corporate and financing strategies. We welcomed two new Non-Executive Directors from OncoMed, brining additional skills and diversity to the Mereo Board.

Biographies for our team of highly experienced directors and executive officers can be found below:

Executive Directors

Dr. Denise Scots-Knight (CEO and co-founder)

Dr. Scots-Knight has served as our Chief Executive Officer since July 2015 and as a member of our Board since our formation. From 2010 until joining us, Dr. Scots-Knight was the Managing Partner of Phase4 Partners Ltd. ("Phase4"), a global life science venture capital firm. Dr. Scots-Knight is currently a board member of Elanco Animal Health Incorporated (NYSE: ELAN. Dr. Scots-Knight previously served as a member of the board of directors of Idenix Pharmaceuticals, Nabriva, Albireo and OncoMed. Dr. Scots-Knight holds a B.Sc. (Hons.) and a Ph.D. from Birmingham University.

Richard Jones (CFO)

Mr. Jones has served as our Chief Financial Officer and as a member of our Board from January 2017. As a consequence of Mr. Jones serving notice in March 2020 that he will be leaving the Board of the Company and will remain in his position as Chief Financial Officer for a transitionary period of up to 5 months, Mr. Jones is not standing for re-election to the Board at the Annual General Meeting to be held on June 29, 2020. From 2011 until joining us, Mr. Jones was the Chief Financial Officer and Company Secretary of Shield Therapeutics plc, where he also served as a Non-Executive Director from 2010 to 2011. Mr. Jones serves as a non-executive director on the board of Alliance Pharma plc. Mr. Jones is a qualified chartered accountant (ACA) with the Institute of Chartered Accountants in England and Wales (ICAEW) and holds a B.Eng. (Hons.) from the University of Newcastle upon Tyne. Non-Executive Directors

Dr. Peter Fellner (Chairman)

Dr. Fellner has been Chairman of our Board since July 2015. He served as Chairman of the board of directors of Consort Medical plc from May 2009 until April 2019 and was Chairman of the board of directors of Ablynx NV from November 2013 until January 2018 and Vernalis plc until October 2018. Dr. Fellner was previously Chairman of the board of directors of Acambis plc from 2006 until its acquisition by Sanofi Pasteur and Optos plc from 2000 until its acquisition by Nikon Corporation, and Vice Chairman of Astex Pharmaceuticals Inc. until its acquisition by Otsuka Pharmaceutical Company. He also served as a Director of UCB S.A. and was CEO and then Chairman of Celltech Group plc. Dr. Fellner holds a B.Sc. (Hons.) from the University of Sheffield and a Ph.D. from the University of Cambridge.

Dr. Fellner serves as Chair of the Nomination Committee.

Paul Blackburn

Mr. Blackburn has served on our Board since October 2015. Mr. Blackburn was Senior Vice President Strategic Finance Projects and Financial Controller at GlaxoSmithKline. Mr. Blackburn currently serves on the Board of Directors of Syngene. Mr. Blackburn is a member of the Chartered Institute of Management Accountants. Mr. Blackburn holds a B.Sc. from Warwick University.

Mr. Blackburn serves as Chair of the Audit and Risk Committee.

Dr. Anders Ekblom

Dr. Ekblom has served on our Board since July 2015. Dr. Ekblom has held a number of executive positions at AstraZeneca, including Executive Vice President Global Drug Development, Executive Vice President Global Medicines Development, Global Head Clinical Development, and Chief Executive Officer of AstraZeneca AB Sweden. He currently serves as Chairman of the Board of Elypta AB, as Vice Chairman of the Board of LEO Pharma A/S, and on the boards of directors of Alligator Bioscience AB and AnaMar AB. Dr. Ekblom is a board-certified medical doctor and an Associate Professor at the Karolinska Institutet. Dr. Ekblom holds a M.D., Ph.D. and a D.D.S from Karolinska Institutet. Dr. Ekblom serves as Chair of the R&D Committee and is a member of the Remuneration Committee and Nomination Committee.

Kunal Kashyap

Mr. Kashyap has served on our Board since July 2015. Mr. Kashyap is Chairman and Managing Director of Allegro Capital Advisors. He had also served as an Independent Director of GlaxoSmithKline Consumer Healthcare Ltd until June 2019. Mr. Kashyap was a partner with Arthur Andersen responsible for establishing and managing their operations in South India. Mr. Kashyap is also the Founder and was the Executive Director of Celstream Technologies Private Limited. Mr. Kashyap is a Chartered Accountant from the Institute of Chartered Accountants of India. Mr. Kashyap is a member of the Audit and Risk Committee.

Peter Bains

Mr. Bains has served on our Board since July 2015. Mr. Bains was a Representative Executive Officer and Chief Executive Officer of Sosei Group Corporation, a Japanese listed biotechnology company until 31 December 2018. Previously, he was Chief Executive Officer and Executive Director of Syngene International Ltd, a BSE listed contract research organization, where he served as a Non-Executive Director until 2016. Mr. Bains also served as Non-Executive Chairman of Fermenta Biotech Ltd, an Indian speciality manufacturing company until April 2018. Mr. Bains currently serves as a Non-Executive Director for MiNA Therapeutics Ltd and Apterna Ltd, both privately held UK biotechnology companies, and Indivior PLC, a FTSE listed speciality pharmaceuticals company. Mr. Bains holds a B.Sc. (Hons.) from Sheffield University. Mr Bains serves as Chair of the Remuneration Committee and is a member of the Nomination Committee and R&D Committee.

Michael Wyzga

Mr. Wyzga has served on our Board since April 2019 following completion of the Merger and had served as a director of OncoMed since October 2013 until the closing of the Merger. On May 14, 2020, we entered into the Consulting and Interim Chief Financial Officer Agreement with MSW Consulting Inc. and Michael Wyzga by which Mr. Wyzga will serve as Interim Chief Financial Officer following the departure of Mr. Jones. Mr. Wyzga is currently the President of MSW Consulting Inc., a strategic consulting group focused in the life sciences area. From December 2011 until November 2013, Mr. Wyzga served as President and Chief Executive Officer and a member of the board of directors of Radius Health, Inc. Prior to that, Mr. Wyzga served in various senior management positions at Genzyme Corporation, including as Chief Financial Officer from July 1999 until November 2011. Mr. Wyzga 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 of X4 Biologics. Mr. Wyzga 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.

Mr. Wyzga is a member of the Audit and Risk Committee.

Dr. Deepa Pakianathan

Dr. Pakianathan has served on our Board since April 2019 following completion of the Merger and served as a director of OncoMed since December 2008 until the closing of the Merger. Since 2001, Dr. Pakianathan has been a Managing Member at Delphi Ventures, a venture capital firm focused on biotechnology and medical device investments. Dr. Pakianathan serves on the boards of directors of Karyopharm Therapeutics, Inc., and Calithera Biosciences, Inc. Dr. Pakianathan previously served on the boards of directors of Alexza Pharmaceuticals, Inc., Alder Biopharmaceuticals, Inc., PTC Therapeutics, Inc. and Relypsa, Inc. Dr. Pakianathan received a B.Sc. from the University of Bombay, India, a M.Sc. from The Cancer Research Institute at the University of Bombay, India, and an M.S. and Ph.D. from Wake Forest University Dr. Pakianathan is a member of the Remuneration Committee and the R&D Committee.

Executive Officers

Dr. Alastair Mackinnon (Chief Medical Officer, co-founder)

Dr. MacKinnon has served as our Chief Medical Officer since July 2015. From 2010 until joining us, Dr. MacKinnon was a Partner of Phase4. Dr. MacKinnon holds a B.Sc. and a MBBS from King's College London and is a Member of the Royal College of Surgeons in Edinburgh. .

John Richard (Head of Corporate Development, co founder)

Mr. Richard has served as our Head of Corporate Development since July 2015.

Prior to joining us, he was a consultant for Nomura, a global investment bank, and Phase4, and previously served as the head of business development for Sequus Pharmaceuticals Inc., VIVUS Inc. and Genome Therapeutics Corporation. Mr. Richard serves on the boards of QUE Oncology, and previously served on the boards of Catalyst Biosciences, Vaxart, Inc., Aviragen Therapeutics, Inc., and Targacept, Inc. Mr. Richard holds a B.S. from Stanford University and an MBA from Harvard Business School.

Charles Sermon (General Counsel, Company Secretary, co-founder)

Mr. Sermon has served as our General Counsel and Company Secretary since July 2015. From 2010 until joining us, Mr. Sermon was a Partner of Phase4, where he currently serves as a member of the board of directors. Mr. Sermon trained and qualified as a lawyer with Freshfields after completing the Law Society's Final Examination. Mr. Sermon holds an LL.B. (Hons.) from Hull University.

Wills Hughes-Wilson (Head of Patient Access and Commercial Planning)

Ms. Hughes-Wilson has served as our Head of Patient Access and Commercial Planning since March 2018. Prior to joining us, Ms. Hughes-Wilson was Senior Vice President, Chief Patient Access Officer at Swedish Orphan Biovitrum (publ.) AB, a biotechnology company, from 2012 to 2018, and prior to that served as Vice President Health & Market Access Policy EMEA at Genzyme (now Sanofi Genzyme), a biotechnology company. Ms. Hughes-Wilson holds a bachelor's degree in Law and Politics (Hons.) from the University of Durham, U.K.

Jill Henrich (U.S. Site Head and SVP of Regulatory Affairs)

Ms. Henrich serves as our U.S. Site Head and Senior Vice President of Regulatory Affairs. Prior to the Merger she was Senior Vice President of Regulatory Affairs and QA at OncoMed Pharmaceuticals Inc. Prior to joining OncoMed, Ms. Henrich was at PDL BioPharma, Inc. (Facet Biotech, acquired by Abbott) as Executive Director of Regulatory Affairs with additional responsibility for Regulatory Operations, Corporate Document Control, Medical Writing and Quality Assurance Compliance. She was Senior Director of Regulatory Affairs at Corixa Corporation (formerly Coulter Pharmaceutical, Inc.), and held various positions in Research (Cell Genetics/Molecular Biology) and Regulatory Affairs at Genentech. Ms. Henrich received her Bachelor of Science degree in Biological Sciences/Microbiology from the University of Connecticut.

Dr. Peter Fellner
Chairman

June 15, 2020

The Board has delegated certain responsibilities to the Audit and Risk Committee ("ARC"), as more fully explained within the Corporate Governance Report on pages 35 to 45.

Those responsibilities include oversight for the financial accounting and reporting process, internal control, risk management, and management and evaluation of the independent external auditor.

The ARC met eight times in 2019. A summary of the Committee's key activities during 2019 is as follows:

Review of the independent external auditor and tax adviser
The ARC monitors the relationship with the independent external auditor, Ernst & Young LLP, which was appointed in 2015 and reappointed at the 2019 AGM, to ensure that auditor independence and objectivity are maintained. We also reviewed and approved the 2019 audit plan and fee schedule. We have also assessed the performance of the independent external auditor during the year.

As part of its review we monitor the provision of non-audit services by the independent external auditor. The breakdown of fees between audit and non-audit services for 2019 is provided in Note 7 of the consolidated financial statements.

During the year, Ernst & Young LLP provided certain non-audit services. These non-audit services were in relation to:

- Regulatory requirements relating to the audit of the financial information contained within Registration Statements filed with the U.S. Securities and Exchange Commission ("SEC");
- Contractual requirements relating to one-off agreed upon procedure assignments which require completion by the Company's independent external auditor. During the year this included an opinion relating to the issue of warrants to our lenders.

The audit to non-audit fee ratio is impacted by the volume of additional work required as part of the audit of financial information contained within the Registration Statement (on Form F-4) filed with the SEC in early 2019 relating to the initial registration of the Company's American Depository Shares ("ADSs") onto the Nasdaq Global Market and subsequently as part of a review of information incorporated by reference within a Securities Registration Statement (on Form S-8). In addition to the Registration Statements, the independent external auditor has also reviewed similar financial information contained within other documents proposed to be filed with the SEC throughout the year.

We expect that the audit to non-audit fee ratio will improve in future years and do not consider the ratio at present to impact auditor independence or objectivity given the regulatory and contractual requirement that the independent external auditor performs the relevant service, as well as the nature of work performed.

Having reviewed the independent external auditor's independence and performance, we recommended to the Board that the appointment of Ernst & Young LLP as auditors from the conclusion of the Company's Annual General Meeting on June 19, 2019 be confirmed to continue until the conclusion of the next general meeting at which the Company's annual report and accounts are presented.

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. We also agreed the appointment of Moss Adams for routine US based tax compliance.

Auditor rotation
After the year end, the audit and risk committee considered the Ethical Standards in respect of audit partner rotation as the Ernst and Young engagement partner, D Hales, will complete his five year term for the UK audit when Mereo files its 2019 Annual report. The committee considered the extenuating circumstances arising from the impact of Covid19 on the ongoing business activity, the impact of recent corporate deals and fundraising on our business, and the resignation of our CFO. We concluded that there is a need for continuity when completing the 2020 audit including the additional audit and related work in respect of the recently completed financing and concluded that the integrity, objectivity or independence of the audit would not be compromised. Consequently, the committee approved an extension of up to one year. Ernst and Young will work on succession plans to identify a partner to take over after 2020.

Financial statements

During the year we met with the Chief Financial Officer ("CFO"), wider finance team and the independent external auditor to agree the scope of the 2019 audit plan. We also reviewed and approved the FY 2018 financial statements, the FY 2019 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 FY 2018 and H1 2019 and the proforma consolidated combined balance sheets as at June 30, 2018 and December 31, 2018.

As a dual-listed organization, the Company has reporting requirements in both the U.K. and U.S. Throughout the year, the ARC has monitored the progress made by the Company to ensure those reporting requirements are met on a timely basis through holding regular discussions with the CFO and wider finance team as well as reviewing internal action plans.

As part of our review of the financial statements for the current accounting period, the ARC considered and approved existing and new accounting policies as well as updated judgments and estimates. Specifically, we considered:

- The sufficiency and adequacy of disclosures made by management with respect to the Group's liquidity and funding position as at the date of this report.
- The acquisition of OncoMed in April 2019 which required the Company to account for a transaction for the first time under IFRS 3 (Business Combinations). As part of the review of the proposed accounting treatment, the ARC challenged the assumptions made by management within the purchase price allocation ("PPA") assessment and other considerations made throughout the one-year measurement period within which certain changes to the PPA are permissible.
- The adoption of IFRS 16 (Leases), effective January 1, 2019. The adoption of this new standard had a material impact on the statement of financial position as it established a right-of-use asset offset by a lease liability whereas previously no such asset or liability was recognized under IAS 17 (Leases). The materiality of IFRS 16 (Leases) was further impacted by the acquisition of OncoMed through which the Group acquired an operating lease over OncoMed's operational facility in Redwood City, California.
- Management's impairment assessment, which is required annually under IAS 36 (Impairment of Assets) given all intangible assets held by the Group, are not yet amortized as they remain under development. As part of our review of the impairment assessment, the ARC understood the rationale for key changes in the valuation methodology and inputs used in determining the recoverable value of the respective intangible assets.

Internal controls

The Board and ARC are responsible for ensuring systems of internal control are appropriate and hold ultimate responsibility for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Board and ARC review the effectiveness of these systems annually by considering the risks potentially affecting the Group.

Following the listing on the Nasdaq Global Market in April 2019, the Group is required by December 31, 2019, to adhere to Section 404(a) of the Sarbanes-Oxley Act of 2002 which holds management responsible for establishing and maintaining adequate internal controls and financial reporting procedures. As an Emerging Growth Company ("EGC"), as defined in the Jumpstart Our Business Start-Ups Act of 2012, our independent external auditor is not required to attest our assessment of internal control. This exemption will be lost either when the Group fails to qualify as an EGC, or at the conclusion of the financial year ended December 31, 2014, whichever occurs earlier.

During the year the ARC noted that the Company:

- Appointed an experienced individual within the finance team to hold internal responsibility for the transition to compliance with Section 404(a) requirements;
- Established a Risk and Control Matrix ("RACM") which was reviewed by the ARC. The RACM establishes baseline controls across the Group's financial processes with consideration for differences in practice following the acquisition of OncoMed;
- Documented a full assessment of identified control deficiencies relating to control design and operating effectiveness which included, where relevant, the measures taken by management to mitigate the deficiency. The assessment was reviewed and approved by the ARC; and
- Engaged a third party to independently validate key evaluations by management with respect to design and operating effectiveness testing performed during the year.

At each meeting of the ARC throughout 2019, the CFO and wider finance team provided the ARC with a status update of the roll-out and implementation of the RACM and other control procedures to ensure attestation under Section 404(a) of the Sarbanes-Oxley Act of 2002 can be provided. The ARC considers that in 2019 the Company had an effective internal control environment during the year. This consideration is based on a detailed testing plan which considered the design and operating effectiveness of internal control and a completed assessment of the severity and subsequent mitigation of control deficiencies identified during the year.

At present, the ARC does not consider it necessary for the Group to have an internal audit function due to the small size of the finance function. This need will be evaluated annually.

Treasury management
During the year we reviewed the treasury management policy and procedures to ensure that 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 20 to 34.

Paul Blackburn
Chairman of the Audit and Risk Committee

June 15, 2020

Dear Shareholder,

Introduction

As Chair of the Remuneration Committee (the "Committee"), I am pleased to present, on behalf of the Board of Directors of Mereo BioPharma Group plc (the "Company") the first Directors' Remuneration Report for the year ended December 31, 2019 (the "Report"). The requirement to prepare this report follows the Company's listing in the U.S. on the Nasdaq Global Market in April 2019.

This Report will be subject to an advisory vote and our Remuneration Policy (the "Policy") will be subject to a binding vote under resolutions to be proposed at a general meeting of the Company to be convened later this year ("the General Meeting"). The outcome of these votes will be considered carefully by the Committee in the formulation and approval of the Company's future remuneration strategy.

Remuneration policy

This is the first year that the Company has been required to put the Policy to shareholders for approval. The Policy is set out in full within this Report and will be proposed at a General Meeting of the Company, a notice of which will be sent out in due course setting out the time, date and location of such General Meeting, together with resolutions to be proposed at such meeting.

The Committee considers that the Policy provides a fair basis for the remuneration of Executive Directors, rewarding performance against short-term objectives which provide the foundations for the achievement of longer-term corporate goals. In addition, the Policy allows for the use of equity incentives to encourage longer-term commitment and sustainable performance. The Committee has also considered Non-Executive Directors within the Policy and considers that the current remuneration strategy provides an appropriate level of remuneration for their services.

Key decision and activities in the year ended December 31, 2019

Since January 1, 2019, the Committee has undertaken the following key decisions and activities:

- In the first half of the year, we engaged an external consultant to support the Committee to conduct a benchmarking exercise over the remuneration structure and strategy following completion of the Company's acquisition of OncoMed Pharmaceuticals, Inc. ("OncoMed") and the Company's subsequent U.S. listing on the Nasdaq Global Market. This benchmarking exercise covered both Executive and Non-Executive Directors and considered a comparator group of companies that were at a similar development stage to Mereo and that had a range of market capitalisations. The comparator group also included companies with dual listings (London and the U.S.) and market capitalisation similar to that of Mereo. The overall conclusion from the benchmarking exercise was that the remuneration structure is in line with the increased size and complexity of the Group and that the remuneration strategy is aligned to the Group's industry and location;
- Adopted a new equity incentive award plan for both employees (including Executive Directors) and Non-Executive Directors. The new equity incentive award plan allows the Committee to grant equity-based incentive awards to eligible individuals in order to retain, recruit and reward the workforce required to create sustainable growth and progress the development of our products;
- Awarded both employees (including Executive Directors) and Non-Executive Directors with market value share options under the newly adopted equity incentive award plan;
- Considered, reviewed and approved the short-term objectives for the annual bonus for the financial year ended December 31, 2019 for the Executive Directors;
- Assessed performance against the short-term objectives established for the financial year ended December 31, 2019 for the Executive Directors. The Committee approved the level of bonuses to be paid to the Executive Directors and other Executive Officers, determined according to performance against the short-term annual objectives. Such amounts are included as a liability within financial statements for the year ending December 31, 2019; and
- Considered and agreed the short-term objectives for the annual bonus for the financial year ending December 31, 2020 for the Executive Directors.

Achievements
The Policy for the remuneration of the Executive Directors ensures that variable incentives are structured to align with the achievement of both short-term and long-term corporate objectives to deliver sustainable growth and value.

During the 2019 performance period, the performance of our Executive Directors and employees was evaluated against the criteria set at the start of the financial year, which outlined the relevant objectives to be met. The Committee considers that the Company has made substantial progress and delivered on many operational objectives during the performance period, reflective of the dedication, hard work and support provided by the Company's employees.

Key achievements during the 2019 performance period include:

- Progressed activities to deliver positive data readouts on the Setrusumab Phase 2b clinical trial in adults. Whilst the primary endpoint from the Phase 2b trial was not met, the secondary endpoint was achieved and the topline 12-month results from the study demonstrated a clear, dose-dependent, statistically significant bone-building effect of Setrusumab and supported further progression into Phase 3. Alongside this positive data readout, the management team and wider employee base have further progressed the late-stage development and commercialisation plans for this product candidate.
- On Acumapimod, a successful End of Phase 2 meeting with the U.S. FDA was held in April 2019 which provided the outline for pivotal trial design for the drug in patients with acute exacerbations of chronic obstructive pulmonary disease ("AECOPD").
- On Navicixizumab ("Navi"), a successful Type B meeting was held with the U.S. FDA in July 2019 which outlined an accelerated approval pathway for Navi in patients with advanced ovarian cancer. In addition, the Company received U.S. FDA Fast Track designation for the treatment of patients with heavily pre-treated ovarian cancer. Subsequent to the year end, a global license agreement was signed with Oncologie, Inc. ("Oncologie") for the development and commercialization of Navi.
- Following the Company's acquisition of OncoMed in April 2019, we have successfully integrated a new business into Mereo which included the retention of a number of employees who continue to deliver on our ongoing development programmes. In addition, the Company is now listed on the Nasdaq Global Market and has delivered its first financial year as dual-listed company.

Subsequent to the 2019 performance period, the Company announced positive feedback following a successful Type B End-of-Phase 2 meeting with the U.S. FDA with an outline of the pivotal Phase 3 pediatric study design for setrusumab in OI patients. This combined with the previously approved E.U. Pediatric Investigational Plan ("PIP") allows a single global Phase 3 study. Whilst this event falls outside the 2019 performance period, it nonetheless provides testament to the success and achievements of the Executive Directors and employees.

With consideration for the achievement of objectives during the performance period, the Committee has decided to award both Executive Directors a bonus which will pay out at 75% of annual base salary. The maximum potential pay out of 100% of annual base salary was not met, because certain objectives, related to a clinical milestone for the ongoing Phase 2 study of alvelestat in alpha-1 antitrypsin deficiency ("AATD") and a specific corporate development target relating to acumapimod, were either not met or not fully achieved during the performance period.

As the bonuses are now approved, such amounts are included as a liability within financial statements for the year ending December 31, 2019. The level of pay out achieved is the result of strong performance against the short-term objectives, which were considered, reviewed and approved by the Committee at the start of the 2019 performance period. Further details are discussed within this Report.

During the 2019 performance period no long-term incentives with performance conditions were awarded to Executive Directors.

Termination arrangements for Richard Jones (Chief Financial Officer)
In March 2020 we announced that Richard Jones had informed the Board of his intention to leave the Company to pursue other opportunities. It is anticipated that Richard will leave the Board and the Company no later than early September 2020.

In light of Richard's contribution to the Company over the last three years, the Committee has exercised its discretion to award him a reduced bonus payment in respect of his services which is due to be paid out in the current year. Payment of this bonus is subject to certain conditions to be achieved prior to Richard's departure. The Committee has also exercised its discretion to allow exercise of Richard's share options held under The Mereo BioPharma Group plc Share Option Plan and the 2019 EIP for a period of two years following his departure in light of Richard's contribution to the Company over the last three years including over his notice period. All other unvested long-term incentives at the point of departure will lapse.

Corporate Governance

Mereo is a dual-listed Company whose shares are traded on the AIM Market of the London Stock Exchange ("AIM") and Nasdaq Global Market. Therefore, we are subject to corporate governance standards and regulations applicable in both the U.S. and U.K. It is the Committee's belief that the Policy ensures relevant corporate governance standards and regulations with regard to ensuring that remuneration practices are met.

The Committee comprises three members who are all independent Non-Executive Directors under the Corporate Governance Code as published by the Quoted Companies Alliance (the "QCA Code"), under U.S. securities laws and Nasdaq listing rules.

Summary

The Committee believes that this Report and the Policy contained within the Report provides a remuneration philosophy that encourages both Executive and Non-Executive Directors to serve in the best interests of the Company to support the delivery of value to shareholders in the future in a sustainable way.

Further, the Committee trusts that the both the Report and the Policy is helpful and looks forward to the Company's General Meeting where we hope to have your support.

Yours sincerely,

Peter Bains
Chair of the Remuneration Committee

June 15, 2020

The following section of this Report describes the formal remuneration policy applying to the Company's Executive and Non-Executive Directors. This Policy will be put to a binding shareholder vote at the Company's General Meeting, and if approved, will become effective from the date of such General Meeting

It is intended that the Policy will remain in place for a period of three years, unless the Remuneration Committee (the "Committee") determines that it is necessary to seek approval for an amended Policy during that period.

The Policy, which is maintained by the Committee, is designed to:

- Attract, retain and motivate outstanding individuals who have the potential to support the growth of the Company and to attract and retain Non-Executive Directors who can substantially contribute to our success;
- Align Executive Directors' incentives with shareholder value creation;
- Tie short- and long-term cash and equity incentives to the achievement of measurable corporate objectives; and
- Consider practices for comparable companies that are dual-listed in the U.K. and U.S.

1.1 Remuneration policy table – Executive Directors
The total remuneration for Executive Directors is made up of the following elements:

- Base salary;
- Benefits;
- Pension;
- Annual bonus (short-term benefit);
- Equity incentives (long-term benefit).

The following section of this report describes the formal remuneration policy applying to the Company's Executive Directors:

Base salary	
Purpose and link to strategy	Provides a core level of reward for the completion of duties by the Executive Directors. Set at a level to attract and retain employees of a sufficient calibre to drive the Company's success, taking into account the global nature of the business and the key talent markets (including the U.K. and U.S.) in which we must compete.
Maximum opportunity	There is no maximum salary limit. When considering salary levels, the Committee will consider the specific nature and responsibilities of the role held by the Executive Director, the capabilities and experience of the individual, as well as pay levels in the wider market.
Operation	Salaries are typically reviewed annually, with any increases normally taking effect from 1 January. When awarding salary increases, the Committee will consider the level of increase proposed for the wider workforce, as well as employee pay conditions more broadly and inflation. Where there has been a change in the role, or if the individual is new to the role, increases could be higher. The Committee retains discretion to retrospectively increase salaries for Executive Directors.
Performance framework	A broad assessment of individual and corporate performance is considered as part of the annual review process.

Benefits	
Purpose and link to strategy	Provides market-competitive and cost-effective employment benefits
Maximum opportunity	There is no formal maximum limit as the value of insured benefits will vary from year-to-year based on the cost quoted by third party providers.
Operation	For Executive Directors, this includes private medical insurance and life insurance. Other employment benefits may be provided from time to time on similar terms as those of other employees. In the event that an Executive Director is required to relocate, reasonable expenses or an allowance may be payable. Any reasonable business-related expenses can be reimbursed, including tax thereon.
Performance framework	Not applicable.
Pension	
Purpose and link to strategy	Provides employees with long-term savings for their future.
Maximum opportunity	The Company operates a defined contribution pension plan and has a policy of encouraging all employees to plan responsibly for their retirement, including the Executive Directors. The policy also complies with the provisions of auto-enrolment. The Company makes payments of 15% of basic salary for the Chief Executive Officer and 10% of basic salary for the Chief Financial Officer into any pension scheme or similar arrangement as the individual may reasonably request (or a payment in lieu). Such payments are not counted for the purposes of determining bonuses.
Operation	Payments are made directly to a nominated pension scheme or, where payments are made in cash, delivered monthly through payroll. Only base salary is pensionable.
Performance framework	Not applicable.
Annual bonus (short-term benefit)	
Purpose and link to strategy	To focus attention on the achievement of short-term corporate objectives and incentivize successful delivery of the Company's strategic goals. Further, the annual bonus creates a tangible link between annual performance and individual pay opportunity.
Maximum opportunity	Executive Directors are eligible for a maximum annual bonus of 100% of base salary per annum. The Committee will determine an appropriate award size each year within this parameter based on achievement against annual performance.
Operation	Annual performance is measured through short-term corporate objectives which are set at the start of each year and reflect the key milestones and other objectives for that year that make progress towards the Company's strategic goals. The target annual cash bonus is based on a percentage of salary and is payable in cash after the award has been approved by the Committee, usually at the end of the financial year.

	Under the Deferred Bonus Plan ("2019 DBSP"), 100% of the annual bonus is paid in cash, of which 30% net of amounts granted to executive officers (after deduction of income tax and the relevant employee's national insurance contributions) is normally required to be utilized by the executive to acquire Mereo shares in the open market within 12 months of the grant of the award.
Performance framework	Short-term corporate objectives are set annually and approved by the Committee. In any given year they typically include targets relating to clinical development, corporate development, finance, manufacturing and intellectual property / legal. Once set, short-term corporate objectives can be revised during the performance period but require pre-approval by the Committee. In accordance with the regulations, any changes would be disclosed in the relevant year's report and accounts. At the end of the performance period (typically the end of a financial year) short-term corporate objectives are reviewed and their achievement is evaluated by the Committee. Short-term corporate objectives can be fully achieved, partially achieved or lapse under poor performance. Once the evaluation is complete, an overall proposal of bonus payment (against a maximum annual bonus of 100% of base salary per annum) is approved by the Committee. The minimum potential level of bonus opportunity is 0% of the maximum.
Equity incentives (long-term benefit)	
Purpose and link to strategy	Historically, equity incentive awards have been granted to Executive Directors under The Mereo 2015 Plan (the "2015 Plan"), the Mereo BioPharma Group plc Share Option Plan (the "Share Option Plan") and, following the IPO on the AIM Market of the London Stock Exchange ("AIM"), a long-term incentive plan (the "LTIP"). Following the implementation of the 2019 Equity Incentive Plan (the "2019 EIP"), equity incentive awards from the start of 2019 are granted to Executive Directors under the 2019 EIP. The Committee envisages further grants under the 2019 EIP to motivate and reward employees, including Executive Directors, to perform at the highest level and to further the best interest of the Company and its shareholders. In addition, the 2019 EIP is designed to align the interests of Executive Directors with those of shareholders and also encourage retention, as the benefits accrue over a period of years. The Committee does not anticipate further issuances of other types of equity incentive awards but reserves the right to make such awards.
Maximum opportunity	There is no maximum opportunity under the 2019 EIP. However, the Committee will generally work within the benchmarking guidelines provided by our external compensation consultants.
Operation	The 2019 EIP provides for the grant of market value options, share appreciation rights, restricted stock unit awards, performance awards (subject to performance conditions) and other share-based awards. Further, subject to the terms of the award agreement, awards can be granted in respect of ordinary shares, American Depository Shares ("ADSs"), cash or a combination thereof.

	Awards vest in accordance with the vesting schedule set for the relevant award in its award agreement. The Committee maintains discretion over the type and terms of equity awards granted. The 2019 EIP is administered by the Committee. The Board may also choose to administer the 2019 EIP itself.
Performance framework	In the determination of the award agreement, the Committee will select the most appropriate form of award to be granted. Rights, payments and benefits which accrue to Executive Directors under the 2019 EIP are subject to repayment or to recoupment ("clawback") by the Company in accordance with policies and procedures that the Committee or Board may adopt from time to time.

1.2 Remuneration policy table – Non-Executive Directors

The total remuneration for Non-Executive Directors is made up of the following elements:

- Fees; and
- Equity incentives (long-term benefit).

The following section of this report describes the formal remuneration policy applying to the Company's Non-Executive Directors:

Fees	
Purpose and link to strategy	Supports the recruitment and retention of Non-Executive Directors with the required skills and experience to support the growth of the Company.
Maximum opportunity	Aggregate fees are subject to the amount per the letter of appointment with the Non-Executive Director, subject to periodic review by the Board of Directors. Non-Executive Directors are excluded from any discussions relating to their own fees.
Operation	Non-Executive Directors receive a base fee for performance of their duties. The Company may also pay additional fees in recognition of any additional responsibilities. Fees paid to Non-Executive Directors are reviewed on a regular basis with reference to pay levels in relevant markets, taking into account the specific roles and responsibilities, as well as expected time commitment. The Company reserves the right to pay additional fees in any given year to reflect a material, but temporary, increase in time commitment during the period. Any reasonable business-related expenses may be reimbursed, including any taxes payable thereon if determined to be a taxable benefit. Business-related expenses are only reimbursable where they relate to the Non-Executive Directors' discharge of responsibilities in relation to the Company.
Performance framework	Not applicable.

Equity incentives (long-term benefit)	
Purpose and link to strategy	Historically, equity incentive awards have been granted to Non-Executive Directors under The Mereo 2015 Plan (the "2015 Plan"). Following the implementation of the 2019 Non-Executive Director Equity Incentive Plan (the "2019 NED EIP"), equity incentive awards from the start of 2019 are granted to Non-Executive Directors under the 2019 NED EIP. The Committee envisages further grants under the 2019 NED EIP to facilitate share ownership by Non-Executive Directors in the Company.
Maximum opportunity	There is no maximum opportunity under the 2019 NED EIP. However, the Committee will generally work within the benchmarking guidelines provided by our external compensation consultants.
Operation	The 2019 NED EIP provides for the grant of market value options, share appreciation rights, restricted stock unit awards, performance awards (subject to performance conditions) and other share-based awards. Further, subject to the terms of the award agreement, awards can be granted in respect of ordinary shares, ADSs, cash or a combination thereof. However, performance awards (subject to performance conditions) are not intended to be issued to Non-Executive Directors. Awards vest in accordance with the vesting schedule set for the relevant award in its award agreement. The Committee maintains discretion over the type and terms of equity awards granted. The 2019 NED EIP is administered by the Committee. The Board may also choose to administer the 2019 NED EIP itself.
Performance framework	In the determination of the award agreement, the Committee will select the most appropriate form of award to be granted. Rights, payments and benefits which accrue to Non-Executive Directors under the 2019 NED EIP are subject to repayment or to recoupment ("clawback") by the Company in accordance with policies and procedures that the Committee or Board may adopt from time to time.

Notes to the Remuneration Policy tables

Legacy arrangements

For the duration of this Remuneration Policy, the Company will honour any commitments made in respect of current or former Directors before the date on which either: (i) the Remuneration Policy becomes effective; or (ii) an individual becomes a Director, even where not consistent with the Remuneration Policy set out in this report or prevailing at the time such commitment is fulfilled. Through approval of this Remuneration Policy, approval is given to the Company to honour any such commitments.

Details of any legacy arrangements made outside this Policy will be disclosed in future Directors' Remuneration Reports as and when they arise.

Performance conditions

The Committee's discretion over the determination, review and appraisal of short-term objectives linked to the annual bonus reflects the Committee's belief that any incentive-based remuneration should be appropriately challenging and tied to the delivery of key financial and strategic targets intended to ensure that Executive Directors are incentivized to deliver across a range of objectives for which they are accountable. The Committee has retained some flexibility on the specific measures that will be used to ensure that any measures are fully aligned with the strategic imperatives prevailing at the time they are set.

The targets for the bonus scheme for the forthcoming year will be set out in general terms, subject to limitations with regards to commercial sensitivity. Short-term corporate objectives in any given year typically include targets relating to clinical development, corporate development, commercial planning, finance, manufacturing and intellectual property / legal.

The Committee will determine appropriate performance conditions for EIP awards granted to Executive Directors at the time each EIP award grant is made. With respect to the 2019 performance period, no EIP awards granted to Executive Directors had performance conditions attached.

As at December 31, 2019, the only equity incentive awards outstanding subject to performance conditions are the Long-Term Incentive Plan ("LTIP") awards granted to the Chief Executive Officer and Chief Financial Officer in 2016 and 2017 respectively.

1.3 Committee discretion in operation of variable pay schemes
The Committee operates under the powers it has been delegated by the Board. In addition, it complies with rules that are either subject to shareholder approval or by approval from the Board. These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Policy is fair and in the interests of shareholders.

To ensure the efficient administration of the variable pay schemes outlined above, the Committee will apply certain operational discretions.

These operational discretions include the following:

i. The eligibility of participants to participate in variable pay schemes operated by the Company;

ii. The timing of grant of awards and relevant payments made relating to variable pay schemes;

iii. The size of awards and payments (subject to maximum limits set out in the respective plan rules);

iv. The determination of whether any performance conditions have been met relating to variable pay schemes with a performance condition;

v. Discretion to override formulaic outcomes of incentive schemes where the payment would otherwise be inappropriate;

vi. Determination of whether an employee is to be considered a 'good' or 'bad' leaver for the purposes of exit payments made under this Policy and the relevant terms of any variable pay schemes;

vii. Whether recovery and / or withholding shall be applied to any award and, if so, the extent to which they shall apply;

viii. Adjustments required in certain capital events such as rights issues, corporate restructuring, other events and special dividends; and

ix. The setting and annual review of short-term corporate objectives.

The Committee also retains the ability to adjust the targets (up or down) and / or set different measures and alter weightings for the annual bonus plan and to adjust targets for the bonus if events occur (e.g., material divestment of a Group business or events relating to the Company's issued share capital) which cause it to determine that the conditions are no longer appropriate in the circumstances and the amendment is required so that the conditions achieve their original purpose and are not, in the opinion of the Committee, materially more or less challenging to satisfy in the circumstances.

1.4 Shareholder and other stakeholder views
The Board is committed to dialogue with shareholders. The Committee will consider shareholder feedback received following the General Meeting, as well as any additional feedback and guidance received from time to time. This feedback will be considered by the Committee as it develops the Company's remuneration framework and practices going forward.

The Committee's independent advisor actively monitors developments within comparator companies and provides feedback to the Committee. Where relevant, such developments are considered in the structure of remuneration for both Executive Directors and Non-Executive Directors.

The Company operates a coherent approach to remuneration across the organisation. Annual bonuses for Executive Directors are subject to the same performance criteria as all employees in the bonus scheme, with additional personal objectives set for other participants where relevant. Employees are also eligible to participate in the equity incentive awards, to encourage broad employee share ownership and alignment with the Company's success. Although the Committee does not consult with employees directly, it is appraised of any decisions relating to pay for the broader workforce and will consider pay conditions throughout the Group when making decisions on Executive Directors' remuneration.

1.5 Executive Directors' service agreements and payments for loss of office

Executive Directors are employed under rolling service agreements with a notice period of twelve months (in the case of the Chief Executive Officer) and six months (in the case of the Chief Financial Officer) from either party. A copy of these contracts may be viewed at the Company's head office or may be requested from the Company Secretary at the General Meeting. Executive Directors retire from their position upon the third AGM following the AGM at which they were elected or last re-elected. They are eligible for re-election at the AGM at which the retire.

Executive Director	Date of contract
Denise Scots-Knight	July 29, 2015
Richard Jones	November 7, 2016

The Company shall be entitled at its sole and absolute discretion lawfully to terminate the employment of an Executive Director at any time and with immediate effect by written notification to the Executive Director and pay, within one month following the date of such termination, a payment in lieu of notice. The total payment in lieu of notice will be equal to the basic salary due to the Executive Director during the notice period.

In the event of a breach of service agreement or other summary termination of employment, no such payments will be made.

1.6 Non-Executive Directors' service agreement and payments for loss of office

Each of the Non-Executive Directors is engaged under a Non-Executive Director letter of appointment. A copy of these letters of appointment may be viewed at the Company's head office or may be requested from the Company Secretary at the General Meeting. Non-Executive Directors retire from their position upon the third AGM following the AGM at which they were elected or last re-elected. They are eligible for re-election at the AGM at which the retire.

Each Non-Executive Director appointment is terminable by either party on not less than three months written notice. Non-Executive Directors are only entitled to fees accrued to the date of termination.

The dates of appointment of each of the Non-Executive Directors serving at December 31, 2019, are summarized in the table below:

Non-Executive Director	Date of appointment
Dr Peter Fellner	July 29, 2015
Dr Anders Ekblom	July 29, 2015
Peter Bains	July 29, 2015
Kunal Kashyap	July 29, 2015
Paul Blackburn	October 6, 2015
Michael Wyzga	April 23, 2019
Dr Deepa Pakianathan	April 23, 2019

1.7 Treatment of leavers

The default treatment of outstanding incentive awards on termination of employment is described in the relevant plan rules and related policy documents, but the Committee retains the discretion to adopt any treatment that it determines fair and appropriate given the circumstances applicable to individual leavers.

Generally, in the event of termination, the Executive Directors' service contracts may provide for payment of basic salary and benefits over the notice period. The Company may elect to make a payment in lieu of notice equivalent in value to basic salary for any unexpired portion of the notice period. The notice period for exiting the Executive Directors service contract is twelve months (for the CEO) and six months (for the CFO).

The Committee's approach to payments in the event that an Executive Director's employment is terminated is to take account of the individual circumstances, including the reason for termination, individual performance, contractual obligations and the terms of any remaining or outstanding equity awards in which the Executive Director participates.

Annual bonus (short-term incentives)

If an Executive Director is working a period of notice at the date any bonus is payable to the Executive Director, no bonus or pro-rata bonus is contractually payable. However, the Committee may consider a payment at its discretion in the case of good leavers. Any bonus paid to a good leaver would normally be paid in cash and would not normally be subject to the requirement that part of the proceeds are used to acquire shares.

Equity awards (long-term incentives)

Whether any equity awards, which are long-term incentives, would vest and be exercisable upon loss of office would be subject to the relevant plan rules. These allow for vesting and exercise of awards in the event of death, retirement, ill-health, injury, redundancy and any other reason at the discretion of the Committee.

The Committee retains discretion to determine the extent to which the award will vest, taking into consideration the circumstances. Unvested awards will normally lapse, although the Committee retains the power to determine, in accordance with the 'good leaver' provisions of the relevant plan rules, what proportion of unvested awards will be retained and what proportion will lapse and whether to impose or vary any conditions on vesting or exercise. In determining this, the Committee will give consideration to the reason for leaving, the extent of achievement of performance objectives at the date of leaving and may decide to time pro-rate awards.

Additional payments

The Committee reserves the right to make payments it considers reasonable under a compromise or settlement agreement, including payment or reimbursement of reasonable legal and professional fees, accrued holiday and any payment in respect of statutory rights under employment law in the U.K. and other jurisdictions.

1.8 Remuneration on recruitment

The remuneration package for any new Executive Director will be determined by the Remuneration Committee in accordance with the terms of the Policy at the time of appointment (including salary, benefits, annual bonus, long-term incentive awards and pension). It is recognized that in order to attract and recruit talented individuals the Policy needs to allow for sufficient flexibility with respect to remuneration on recruitment. The following policies apply to the remuneration of recruitment of new Executive Directors:

Salary

Base salary levels will be set in accordance with our remuneration policy, taking into account the experience and calibre of the individual and the relevant market rates at the time of appointment. Where it is appropriate to offer a lower salary initially, progressive increases may be offered to achieve the desired salary positioning over the following years subject to individual performance and continued development in the role.

Pension

Pension contributions or a cash supplement up to the maximum level indicated in the policy table may be provided, although the Committee retains discretion to structure any arrangements as necessary to comply with the relevant legislation and market practice if an overseas Executive Director is appointed.

Benefits

Benefits will be provided in line with those offered to other employees, with relocation expenses and other arrangements provided for if necessary. Should it be appropriate to recruit an Executive Director from overseas, flexibility is retained to provide benefits that take account of those typically provided in their country of residence (e.g., it may be appropriate to provide benefits that are tailored to the unique circumstances of such an appointment).

Annual bonus (short-term incentives)

In the year of appointment, the annual bonus opportunity will be the subject to the same performance conditions as offered to existing Executive Directors, pro-rated for the period of service. The Committee retains the discretion to set different performance measures, taking into account the responsibilities of the individual, and the point in the financial year that they joined the Company.

For internal appointments, annual bonuses award in respect of the prior role will be allowed to pay out according to their existing terms. In addition, any other contractual remuneration obligations existing prior to appointment may continue.

Equity awards (long-term incentives)

Equity awards will be granted to new Executive Directors in line with the policy outlined for existing Executive Directors. An award may be made shortly following an appointment. The Committee maintains discretion over the type and terms of equity awards granted to new Executive Directors, as well as the timing of grant.

For internal appointments, existing equity awards will continue on their original terms.

Buy-out awards

The Committee may offer additional cash and/or share-based elements to compensate an individual for remuneration forfeited on leaving a former employer, in connection with an executive joining the company following merger and acquisition activity or for any other reason at the discretion of the Committee, if it considers these to be in the best interests of the company and its shareholders. Depending on individual circumstances at the time, the Committee has the discretion to determine the type of award (i.e., cash, shares, options, vesting and holding periods and whether or not performance conditions would apply). When exercising its discretion, the Committee will carefully consider the balance between the need to secure an individual in the best interests of the company against the concern of shareholders about the quantum of remuneration. Any use of discretion would be disclosed to shareholders if considered appropriate.

Non-Executive Directors

On the appointment of a new Non-Executive Director, the fees will be set taking into account the experience and calibre of the individual and the expected time commitments of the role.

Equity awards will be granted to new Non-Executive Directors in line with the policy outlined for existing Non-Executive Directors.

1.9 Policy on external appointments

Executive Directors may, subject to approval from the Board of Directors, accept appropriate external Non-Executive Director appointments, so long as this commitment is not thought to interfere with the business of the Company or the individual's ability to carry out their duties. Any fees payable for such appointments may be retained by the individual.

As at December 31, 2019, both Executive Directors serve as a Non-Executive Director for public companies. Dr. Denise Scots-Knight (CEO) is currently a Non-Executive Director of Elanco Animal Health Incorporated ("Elanco") (NYSE: ELAN) and Richard Jones (CFO) is currently a Non-Executive Director of Alliance Pharma Plc ("Alliance") (LSE: APH).

1.10 Illustration of application of the policy

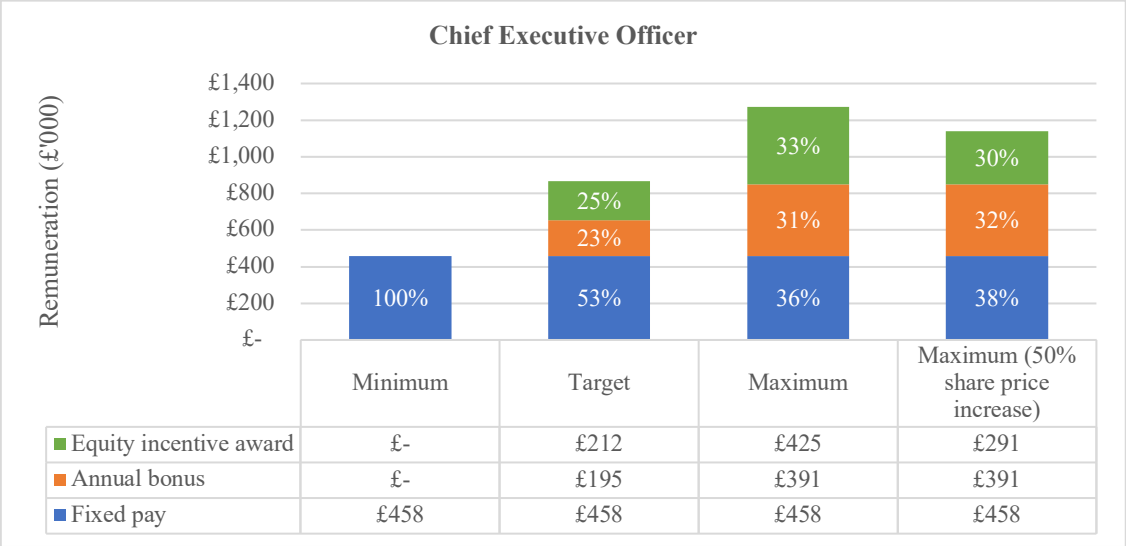
The charts set out for illustrative purposes only, what the annual remuneration the Company expects the Chief Executive Officer ("CEO") will obtain if performance levels are below threshold (minimum), meet expectations (target) or exceed the maximum targets (maximum) in the 2020 performance period.

The assumptions used in the calculations are set out below:

- Minimum: fixed pay;
- Target: fixed pay, annual bonus at threshold level (50% of annual salary) and 50% of the fair value of equity incentive awards granted in 2019[1];
- Maximum: fixed pay, annual bonus at maximum pay-out (100% of annual salary) and 100% of the fair value of equity incentive awards granted in 2019;
- Maximum plus 50% share price growth scenario: For the equity incentive award this results in a lower amount than the fair value used in the maximum scenario as the fair value at maximum includes all possible future outcomes.

Fixed pay comprises:

- Salaries: salary effective as at January 1, 2020;
- Benefits: value of all benefits received in the 2019 financial year;
- Pension: 15% and 10% of salary respectively for the CEO.



	Minimum	Target	Maximum	Maximum (50% share price increase)
Equity incentive award	£-	£212	£425	£291
Annual bonus	£-	£195	£391	£391
Fixed pay	£458	£458	£458	£458

With respect to the maximum scenario which assumes a 50% share price increase in share price, we have included an outcome for the equity incentive award which reflects the share price at the time of grant increasing by 50% over the service period. The share price at the time of grant is equal to the exercise price.

1 The Committee has not determined a set number of equity incentive awards to be granted to the CEO in the 2020 performance period, nor is there a guided minimum or maximum level of equity incentive awards issuable. Therefore, for the purposes of this illustrative disclosure, the fair value of equity incentive awards granted in 2019 has been used a guide.

2.1 Single total figure of remuneration of each Director (audited)

The Directors proportion of fixed and variable remuneration is shown in the below table for the years ended December 31, 2019 and 2018. Fixed remuneration is the sum of salary, taxable benefits and pension (columns a, b and e of the single total figure table). Variable remuneration is the sum of any annual bonus, share options or other types of remuneration (columns c, d and other of the single total figure table).

Year Ended December 31, 2019	(a) Salary/fees	(b) Benefits (i)	(c) Bonus	(d) Share options (v)	(e) Pensions	Other (ii)/(iii)	2019 Total	Fixed remuneration (a, b and e)	Variable remuneration (c, d and other)
					(in £)				
Executive									
Dr. Denise Scots-Knight	390,988	8,497	293,241	–	58,648	424,813	1,176,187	458,133	718,054
Richard Jones	291,200	8,168	–	–	29,120	133,513	462,001	328,488	133,513
Non-Executive									
Dr. Peter Fellner	100,000	–	–	–	–	26,703	126,703	100,000	26,703
Dr. Anders Ekblom	48,000	–	–	–	–	26,703	74,703	48,000	26,703
Peter Bains	46,667	–	–	–	–	26,703	73,370	46,667	26,703
Kunal Kashyap	40,000	–	–	–	–	26,703	66,703	40,000	26,703
Paul Blackburn	48,000	–	–	–	–	26,703	74,703	48,000	26,703
Michael Wyzga (1)	27,590	–	–	–	–	26,703	54,293	27,590	26,703
Dr. Deepa Pakianathan (1)	30,349	–	–	–	–	26,703	57,052	30,349	26,703
Dr. Frank Armstrong (2)	19,959	–	–	–	–	–	19,959	19,959	–

(1) Michael Wyzga and Dr. Deepa Pakianathan were appointed on April 23, 2019
(2) Dr. Frank Armstrong resigned on February 8, 2019

Year Ended December 31, 2018	(a) Salary/fees	(b) Benefits (i)	(c) Bonus	(d) Share options (v)	(e) Pensions	Other (iv)	2018 Total	Fixed remuneration (a, b and e)	Variable remuneration (c, d and other)
					(in £)				
Executive									
Dr. Denise Scots-Knight	379,600	7,620	303,680	–	59,640	–	854,881	446,860	408,021
Richard Jones	260,000	7,481	208,000	–	26,000	–	572,927	293,481	279,446
Non-Executive									
Dr. Peter Fellner	100,000	–	–	–	–	–	100,000	100,000	–
Dr. Anders Ekblom	48,000	–	–	–	–	–	48,000	48,000	–
Peter Bains	44,000	–	–	–	–	–	44,000	44,000	–
Kunal Kashyap	40,000	–	–	–	–	–	40,000	40,000	–
Paul Blackburn	48,000	–	–	–	–	–	48,000	48,000	–
Dr. Frank Armstrong	56,000	–	–	–	–	–	56,000	56,000	–

(i) Benefits represent private medical insurance during the years ended December 31, 2019 and 2018.
(ii) During the year ended December 31, 2019, market value options were granted as an equity incentive award to both Executive Directors. The market value options do not have performance conditions and are therefore presented as other variable remuneration. The value of the market value options granted to both Executive Directors included in the single figure table is the grant date fair value as computed in accordance with IFRS 2 (Share Based Payments) using a Black-Scholes option pricing model. No outstanding equity incentive awards with performance conditions vested during the year ended December 31, 2019.
(iii) During the year ended December 31, 2019, other share-based awards were granted as an equity incentive award to Non-Executive Directors. The other share-based awards do not have performance conditions and are therefore presented as other variable remuneration. The value of the other share-based awards granted to Non-Executive Directors included in the single figure table is the grant date fair value as computed in accordance with IFRS 2 (Share Based Payments) using a Black-Scholes option pricing model.
(iv) During the year ended December 31, 2018, no equity incentive awards were granted to Executive or Non-Executive Directors. No outstanding equity incentive awards with performance conditions vested during the year ended December 31, 2018.
(v) During the years ended December 31, 2019 and 2018, no equity incentive awards with performance conditions or measures were granted or vested.

Annual performance bonus

The Company has a discretionary bonus scheme for all employees and the Executive Directors. Bonus payments for employees are a percentage of base salary based on performance-based measures against personal and Company-wide target objectives. Bonus payments for Executive Directors are a percentage of base salary, based on performance-based measures against Company-wide target objectives.

For the 2019 performance period the CEO was entitled to an annual performance bonus of 100% of base salary. The agreed Company wide target objectives were met at 75%, meaning the bonus pay-out for the 2019 performance period will be 75% of the base salary for the CEO.

As a result of his departure, Richard Jones is not automatically eligible to receive a bonus in respect of 2019. In light of his contribution and performance over the past three years, the Committee has exercised its discretion to award Richard Jones a bonus of £100,000. This bonus will be payable in instalments in the current year, subject to certain additional conditions which are disclosed later in this report. The bonus will be paid in cash and not subject to a requirement to purchase shares out of the proceeds of the bonus. This amount is not included within the single total figure of remuneration table, disclosed above, as it is not considered to be a form of remuneration directly attributable to the 2019 performance period.

Non-Executive Directors are not entitled to a bonus payment. The annual performance bonus for 2019 was paid in June 2020.

Specific details of the actual Company wide target objectives are considered commercially sensitive and therefore not disclosed in detail. However, the objectives used to measure the performance of the Executive Directors included the following:

– Clinical milestone targets relating to products under development;
– Corporate-related objectives (including the successful integration of OncoMed);
– Corporate development targets; and
– Financial goals.

From January 1, 2018, under the new Deferred Bonus Plan ("2019 DBP"), 100% of the annual bonus is paid in cash, of which 30% of amounts granted to Executive Directors (after deduction of income tax and the relevant employee's national insurance contributions) is required to be utilized to acquire shares in the Company in the open market within 12 months of the grant of the award. With respect to the 2018 performance period, Executive Directors have satisfied the condition to acquire shares under the 2019 DBP. Executive Directors are required to hold the shares purchased subject to the 2019 DBP for a period of two years from the date of purchase. With respect to the 2019 performance period, the Committee has not yet finalized the conditions relating to the annual bonus and the 2019 DBP for Dr. Denise Scots-Knight.

Prior to January 1, 2018, under the old Deferred Bonus Share Plan ("DBSP"), 30% of the annual bonus awarded to Executive Directors was deferred into rights to acquire shares equal in value to the amount deferred, free of charge. The DBSP vests three years after the date of grant with no performance conditions nor any service conditions attached (including no requirement for continued employment once the awards have been made).

Long-term incentive awards during the financial year (audited)

Directors may be granted long-term incentive awards at the discretion of the Committee. During the year ended December 31, 2019:

– Both Executive Directors were awarded options under the Company's 2019 Equity Incentive Plan ("EIP") to subscribe for market value options over a four-year vesting period. The awards vest 25% after one year and in 36 equal monthly instalments thereafter. The options awarded under the EIP were in respect of ADSs and do not have performance conditions.
– All Non-Executive Directors were awarded options under the Company's 2019 Non-Executive Director Equity Incentive Plan ("NED EIP") to subscribe for other-share based awards over a one-year vesting period. The awards vest monthly over an annual period from the grant date. The other-share based awards granted under the NED EIP were in respect of ADSs and do not have performance conditions.

All awards granted under the EIP and NED EIP during the year ended December 31, 2019, are subject to a service condition and may be exercised at any time between the relevant vesting date and the tenth anniversary of the date of grant. Awards which do not vest at the end of the vesting period will lapse permanently.

As at December 31, 2018, both Executive Directors and Non-Executive Directors had outstanding long-term incentive awards under the following equity award plans:

Equity award plan	Granted to	Vesting condition
The Mereo 2015 Plan (the "2015 Plan")	Executive Directors Non-Executive Directors	Service only
The Mereo BioPharma Group lc Share Option Plan (the "Share Option Plan")	Executive Directors Non-Executive Directors	Service only
Long-term incentive plan ("LTIP")	Executive Directors	Performance conditions linked to share price appreciation and strategic objectives
Deferred Bonus Share Plan ("DBSP")	Executive Directors	No vesting conditions

All equity award plans granted prior to December 31, 2018 were in respect of ordinary shares.

Awards granted during the year to December 31, 2019 (audited)

During the year to December 31, 2019, Executive Directors were granted options under the Company's 2019 EIP, those awards vest based on continued employment only with no performance conditions. The awards vest 25% after one year and in 36 equal monthly instalments thereafter.

Director	Grant date	ADSs Underlying Grant	Exercise Price per ADS ($)	Face value ($)	Expiration Date
Dr. Denise Scots-Knight	May 20, 2019	87,500	5.40	472,500	May 20, 2029
	July 23, 2019	87,500	3.00	262,500	July 23, 2029
Richard Jones	May 20, 2019	27,500	5.40	148,500	May 20, 2029
	July 23, 2019	27,500	3.00	82,500	July 23, 2029

During the year to December 31, 2019, Non-Executive Directors were granted other share-based awards under the Company's 2019 NED EIP, those awards vest based on continued service only with no performance conditions. The awards vest monthly over an annual period from the grant date.

Director	Grant date	ADSs Underlying Grant	Exercise Price per ADS ($)	Face value ($)	Expiration Date
Peter Fellner	May 20, 2019	5,500	5.40	29,700	May 20, 2029
	July 23, 2019	5,500	3.00	16,500	July 23, 2029
Peter Bains	May 20, 2019	5,500	5.40	29,700	May 20, 2029
	July 23, 2019	5,500	3.00	16,500	July 23, 2029
Paul Blackburn	May 20, 2019	5,500	5.40	29,700	May 20, 2029
	July 23, 2019	5,500	3.00	16,500	July 23, 2029
Dr. Anders Ekblom	May 20, 2019	5,500	5.40	29,700	May 20, 2029
	July 23, 2019	5,500	3.00	16,500	July 23, 2029
Kunal Kashyap	May 20, 2019	5,500	5.40	29,700	May 20, 2029
	July 23, 2019	5,500	3.00	16,500	July 23, 2029
Dr. Deepa Pakianathan	May 20, 2019	5,500	5.40	29,700	May 20, 2029
	July 23, 2019	5,500	3.00	16,500	July 23, 2029
Michael Wyzga	May 20, 2019	5,500	5.40	29,700	May 20, 2029
	July 23, 2019	5,500	3.00	16,500	July 23, 2029

The exercise price of all options granted during the year under the 2019 EIP and 2019 NED EIP was the market value of the shares upon closing on the day before the grant.

Awards lapsed during the year to December 31, 2019 (audited)

During the year to December 31, 2019, certain awards previously made to Dr. Denise Scots-Knight under the LTIP were eligible to vest, however they lapsed as they did not meet the relevant vesting criteria (a share price performance condition).

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.

Director	Form of award	Grant date	Options outstanding (December 31, 2018)	Options lapsed	Options outstanding (December 31, 2019)
Dr. Denise Scots-Knight	LTIP	June 9, 2016	461,538	(115,385)	346,154

There were no LTIP awards granted during the year to December 31, 2019.

No other awards lapsed during the year to December 31, 2019.

On January 1, 2020, a further 115,383 options awarded to Dr. Denise Scots-Knight lapsed as they did not meet the relevant vesting criteria (a share price performance condition). As at the date of this Report, Dr. Denise Scots-Knight has 230,860 options outstanding under the LTIP. On the same date, 46,487 options awarded to Richard Jones lapsed as they did not meet the relevant vesting criteria (a share price performance condition). As at the date of this Report, Richard Jones has 139,463 options outstanding under the LTIP.

2.2 Payments to past Directors (audited)

There were no payments to past Directors made during the financial year ending December 31, 2019.

2.3 Payments for Loss of Office (audited)

There were no payments made to Directors for Loss of Office during the financial year ending December 31, 2019.

In accordance with his contract and the terms agreed for his departure, Richard Jones will receive the following remuneration in 2020:

- Salary, benefits and pension up to the termination date;
- An amount in respect of accrued untaken annual leave;
- Payment of a bonus of £100,000, payable in three instalments on: the earlier of 15 May 2020 and the filing of the Company's Annual Report on Form 20-F; the earlier of the date of cessation and 15 June 2020; the payment of the 2019 bonuses to other executives of the Company. In light of his departure, the Committee has determined that Richard will not be required to purchase shares using the proceeds of the bonus;
- Vested options granted under the Share Option Plan and the 2019 EIP at the time of cessation of employment will be allowed to be exercised for a period of two years following termination in light of Richard's contribution to the Company over the last three years including over his notice period. Richard's other unvested share awards will lapse on cessation; and
- A contribution towards legal fees of £1,500.

In accordance with the Companies Act, full details of these payments will be disclosed to shareholders via the Company's website at the time Richard Jones ceases to be a Director and in next year's remuneration report.

2.4 Statement of Directors' Shareholding and Share Interests (audited)

The table below sets out, as at December 31, 2019, the beneficial interest in the Company's shares of the Directors (together with interests held by his or her connected persons). In addition, the table below also sets out the total number of shares held by Directors which are unvested, the total number of options held by Directors which are vested but not yet exercised and the total number of options held by Directors which are unvested.

The total number of shares which are unvested are disclosed by those with and without performance conditions.

	Shares Vested	Shares Unvested			Awards Vested		Awards Unvested
Director	Beneficially owned shares[1]	DBSP (Unvested, without performance conditions)	LTIP (Unvested, with performance conditions)	2015 Plan/ Share Option Plan (ordinary shares vested but not yet exercised)	2019 NED EIP (ADSs, vested but not yet exercised)	2015 Plan (ordinary shares, unvested)	2019 EIP/NED EIP (ADSs, unvested)
Executive							
Dr. Denise Scots-Knight	935,999[2]	57,524	346,154	1,544,745	–	–	175,000
Richard Jones	66,915	22,058	185,950	–	–	650,000	55,000
Non-Executive							
Dr. Peter Fellner	65,500	–	–	1,692,673	5,496	–	5,504
Dr. Anders Ekblom	189,702	–	–	216,264	5,496	–	5,504
Peter Bains	206,796	–	–	710,583	5,496	–	5,504
Kunal Kashyap	1,497,735	–	–	216,264	5,496	–	5,504
Paul Blackburn	22,624	–	–	236,974	5,496	–	5,504
Dr. Deepa Pakianathan	1,283,670[3]	–	–	–	5,496	–	5,504
Michael Wyzga	–	–	–	–	5,496	–	5,504

(1) Ordinary shares (each ADS held has been converted into five ordinary shares)
(2) Includes 6,300 ordinary shares held by Dr. Denise Scots-Knight's husband.
(3) Delphi Ventures VIII, L.P. ("Delphi VIII") directly holds 254,327 ADSs. Delphi Bio Investments VIII, L.P. ("DBI VIII") directly holds 2,407 ADSs. Delphi Management Partners VIII, L.L.C. ("DMP VIII") is the general partner of Delphi VIII and DBI VIII (together, the "Delphi VIII Funds"), and may be deemed to have sole voting and dispositive power over the ADSs held by the Delphi VIII Funds. DMP VIII and each of James J. Bochnowski, David L. Douglass, Douglas A. Roeder and Deepika R. Pakianathan, Ph.D., the Managing Members of DMP VIII who may be deemed to share voting and dispositive power over the reported securities, disclaim beneficial ownership of the reported securities held by the Delphi VIII Funds except to the extent of any pecuniary interest therein.

The Company does not have a formal policy on Executive or Non-Executive Director shareholdings.

As at December 31, 2019, no unvested equity incentive awards are subject to performance conditions. The interests of the Directors in the Company's share options as at December 31, 2019, is as follows:

Director	Equity Award Plan	Ordinary Shares Underlying Grant	Exercise Price Per Ordinary Share (£)	ADSs Underlying Grant	Exercise Price Per ADS ($)	Grant Date	Expiration Date
Executive							
Dr. Denise	2015 Plan	1,544,745	1.29	–	–	September 25, 2015	September 25, 2025
Scots-Knight	LTIP	346,154	nil	–	–	June 9, 2016	June 9, 2026
	DBSP	25,319	nil	–	–	April 4, 2017	April 4, 2021
	DBSP	32,205	nil	–	–	April 26, 2018	January 31, 2022
	2019 EIP	–	–	87,500	5.40	May 20, 2019	May 20, 2029
	2019 EIP	–	–	87,500	3.00	July 23,2019	July 23, 2029
Richard	Share Option Plan	650,000	3.03	–	–	April 4, 2017	April 4, 2027
Jones	LTIP	185,950	nil	–	–	April 4, 2017	June 9, 2026
	DBSP	22,058	nil	–	–	April 26, 2018	January 31, 2022
	2019 EIP	–	–	27,500	5.40	May 20, 2019	May 20, 2029
	2019 EIP	–	–	27,500	3.00	July 23,2019	July 23, 2029
Non-Executive							
Peter Fellner	2015 Plan	1,692,673	1.29	–	–	September 29, 2015	September 29, 2025
	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23,2019	July 23, 2029
Peter Bains	2015 Plan	710,583	1.29	–	–	September 29, 2015	September 29, 2025
	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23,2019	July 23, 2029
Paul Blackburn	2015 Plan	236,974	1.84	–	–	May 11, 2016	May 11, 2026
	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23,2019	July 23, 2029
Dr. Anders	2015 Plan	216,264	1.29	–	–	September 29, 2015	September 29, 2025
Ekblom	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23,2019	July 23, 2029
Kunal Kashyap	2015 Plan	216,264	1.29	–	–	September 29, 2015	September 29, 2025
	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23,2019	July 23, 2029
Dr. Deepa	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
Pakianathan	2019 NED EIP	–	–	5,500	3.00	July 23,2019	July 23, 2029
Michael Wyzga	2019 NED EIP	–	–	5,500	5.40	May 20, 2019	May 20, 2029
	2019 NED EIP	–	–	5,500	3.00	July 23,2019	July 23, 2029

Executive Directors

– Under the 2019 EIP, we have granted market value options to our Executive Directors. These market value options vest over four years with 25% vesting 12 months after the grant date and the balance vesting equally over the next 36 months. There are no performance conditions attached to share options granted under the 2019 EIP. Subject to the terms of the grant, awards under the 2019 EIP can be granted in respect of ordinary shares, ADSs, cash or a combination thereof. All grants to Executive Directors during the 2019 performance period were in respect of ADSs.

– Under the 2015 Plan, we have granted market value options to our Executive Directors. These market value options vest over four years with 25% vesting 12 months after the grant date and the balance vesting equally over the next 36 months. There are no performance conditions attached to share options granted under the 2015 Plan.

– Under the Share Option Plan, we have granted share options to our Executive Directors. These share options vest over three years. There are no performance conditions attached to share options granted under the Share Option Plan.

– Under the DBSP, we have granted share awards to our Chief Executive Officer. These share awards vest three years from grant date and are exercisable within one year of vesting. There are no performance conditions, nor any service conditions attached to share options granted under the DBSP.

– Under the LTIP, we have granted share awards to our Executive Directors. 75% of these share awards have specific performance conditions and vest depending on achieving share price appreciation relative to the share price on specified future dates against the share price at admission to the AIM Market of the London Stock Exchange ("AIM") (75% of the grant) and the achievement of strategic operational targets (25% of the total grant).

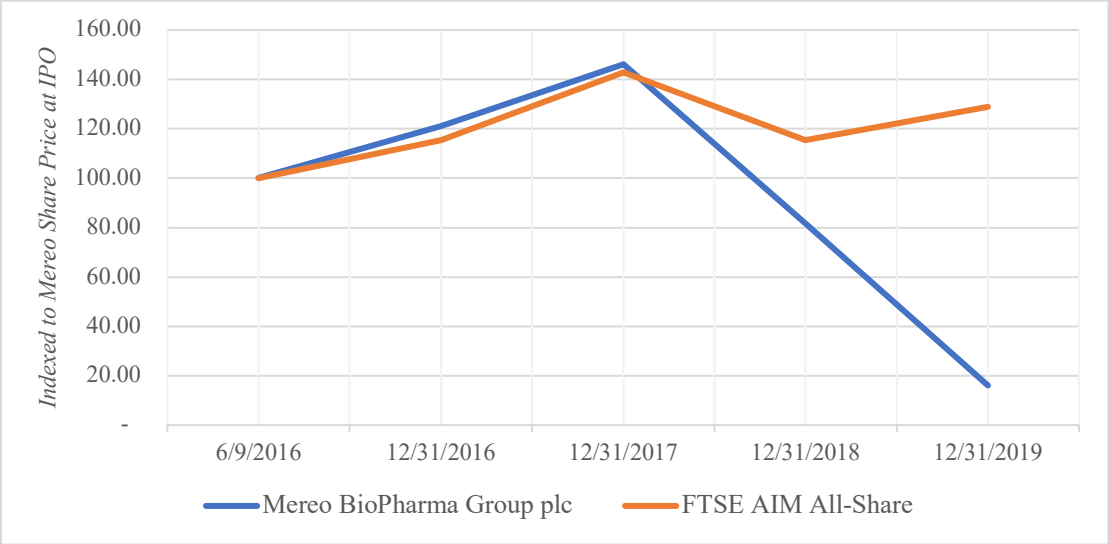
Non-Executive Directors

– Under the 2015 Plan, we have granted share options to our Non-Executive Directors. These share options vested over three years from grant date in three equal annual instalments. There are no performance conditions attached to share options granted under the 2015 Plan.

– Under the 2019 NED EIP, we have granted other share-based awards to our Non-Executive Directors. These other share-based awards vest in equal monthly instalments over the one-year period following their grant date. There are no performance conditions attached to the other share-based awards granted under the 2019 NED EIP. Subject to the terms of the grant, awards under the 2019 NED EIP can be granted in respect of ordinary shares, ADSs, cash or a combination thereof. All grants to Non-Executive Directors during the 2019 performance period were in respect of ADSs, however the award may be cash settled at the Company's sole discretion.

2.5 Performance Graph and Table (audited)

The graph below shows the Company's performance, measured by total shareholder return, for U.K. ordinary shares listed on AIM Market of the London Stock Exchange ("AIM") against the AIM All Share Index. The AIM All Share Index has been selected for this comparison because the Company has been trading on this exchange since 2016 and is therefore considered to be the most suitable comparator index.



The graph shows the value, by December 31, 2019, of £100 invested in the Company on June 6, 2016, compared with the value of £100 invested in the FTSE AIM All-Share on the same date.

Chief Executive Officer Total Remuneration History

As this is the Company's first Directors' Remuneration Report, the exemption not to disclose the history of remuneration for the Chief Executive Officer prior to 2019 has been taken. The Company has chosen to disclose remuneration history from 2019 onwards.

	2019
Total CEO remuneration	£1,176,187
CEO bonus (as a % of maximum available)	75%
CEO LTIP(1) vesting (as a % of maximum available)	0%

(1) During the 2019 performance period the only long-term incentive award to potentially vest with a performance condition attached was the LTIP.

2.6 Percentage Change in Remuneration of Directors and Employees (audited)

As this is the Company's first Directors' Remuneration Report, there has been no change in the remuneration of Directors and employees. It is therefore not possible to provide meaningful comparative data. However, full disclosure of the year-on-year movement will be provided in future remuneration reports.

2.7 Relative Importance of Spend on Pay (audited)

The Remuneration Committee considers the Company's research and development ("R&D") expenditure relative to salary expenditure for all employees, to be the most appropriate metric for assessing overall spend on pay due to the nature and stage of the Company's business. Dividend distribution and share buy-back comparators have not been included because the Company has no history of such transactions. The table below illustrates the gross pay to all employees, per year, as compared to R&D expenditure and illustrates the year-on-year change.

	2019 (£'000)	2018 (£'000)	% change
Gross pay to all employees*	£8,221	£6,198	33%
R&D expenditure	£23,608	£22,703	4%

Gross pay to all employees, up by £2.0 million (or 33%) on the prior year, increased following the acquisition of OncoMed on April 23, 2019. As a result of the acquisition, the Group's headcount increased, which had an impact on employee costs. Further information can be found within the Financial Review (Strategic Report).

2.8 Membership of the Remuneration Committee and its Advisors (audited)

The Remuneration Committee currently comprises of three independent Non-Executive Directors: Peter Bains (Chair), Dr. Anders Ekblom and Dr. Deepa Pakianathan. On May 1, 2019, Peter Bains assumed the role of Chair of the Committee from Dr. Anders Ekblom. The Chief Executive Officer, Chief Financial Officer and General Counsel, as well as others, are invited to attend Remuneration Committee meetings as required to provide advice and assistance. The terms of reference of the Committee can be found on our website at www.mereobiopharma.com.

During the year, the Remuneration Committee engaged Radford (part of Aon plc) to provide advice on certain remuneration matters, including:

- Support in the preparation of the Group's first Directors' Remuneration Policy;
- An evaluation of the compensation provided to the non-executive directors during the financial year and recommendations for a go-forward compensation program;
- A cash compensation benchmarking analysis (competitive assessment) for the U.K. and U.S. workforce;
- A further review of cash compensation provided to Executive Directors and other members of the senior management team, with recommendations for a go-forward compensation program; and
- Strategic review of equity compensation practices in the U.K. and U.S. given the Company's acquisition of OncoMed in April 2019 and subsequent listing on the Nasdaq Global Market.

The Remuneration Committee is satisfied that Radford (part of Aon plc) provides independent and objective advice. During 2019, total fees of approximately £0.1 million were paid to Radford (part of Aon plc).

2.9 Statement of Voting at a general meeting of the Company

The Company will hold a general meeting on a date to be announced in due course. At this general meeting, shareholders will be asked to approve the remuneration policy through a binding vote, and the annual report on remuneration through an advisory vote. Results of these two votes will be included in next year's Directors' Remuneration Report.

2.10 Statement of Implementation of Remuneration Policy in Current Financial Year (audited)

Annual salary

As at the date of this report, there has been no change in the annual base salary for both Executive Directors against the 2019 performance period. The Committee has deferred the decision to review a change in annual base salary for both Executive Directors, however the Committee reserves the right to apply any subsequent review with effect from January 1, 2020, at a point later in the year. The outcome of this will be reported to shareholders in next year's report. Any increase is expected to be in line with that of the general workforce.

Benefits and pension

Both Executive Directors will continue to receive pension contributions (or cash payments in lieu) to the value of 15% (in respect of the CEO) and 10% (in respect of the CFO) of basic salary. No changes will be made to the provision of other benefits.

Bonus

In line with the Policy provided within this Directors' Remuneration Report, the CEO will be eligible for a maximum annual bonus of 100% of basic salary for the 2020 financial year.

The bonus will be subject to the achievement of short-term corporate objectives which have been set by the Committee with respect to the current performance period. The short-term objectives cover key objectives that relate to the achievement of the Group's wider strategic goals.

For the current performance period, short-term corporate objectives include measures relating to clinical development, corporate development, commercial planning, finance, manufacturing and intellectual property /legal.

The amount of bonus payable is at the discretion of the Committee subject to review of performance against the short-term corporate objectives at the end of the performance period (which is aligned with the financial year).

Long-term incentive plan

In line with the Policy, the Committee reserves the right to issue market value options to Executive Directors during 2020. The Committee may also, with discretion, consider the issuance of other option types to Executive Directors in line with the 2019 EIP.

On February 20, 2020, equity incentive awards were granted to Executive Directors under the 2019 EIP. These equity incentive awards were market value options over ADSs, and the vesting period is four years; 25% of the award vesting on the first anniversary of the grant date and the balance vesting in equal monthly instalments over the following three years. No performance conditions were attached to the awards.

	ADS options granted February 20, 2020	Exercise Price per ADS ($)	Face value ($)
Dr. Denise Scots-Knight	175,000	$1.84	322,000
Richard Jones	85,000	$1.84	156,400

Non-Executive Directors' fees

No changes are foreseen to the fees paid to Non-Executive Directors during the 2020 financial year.

In addition to fees paid, the Committee foresees the issuance of market value options to Non-Executive Directors during 2020.

In line with the Policy, the Committee reserves the right to issue other share-based awards to Non-Executive Directors during 2020. The Committee may also, with discretion, consider the issuance of other option types to Non-Executive Directors in line with the 2019 NED EIP.

On February 20, 2020, equity incentive awards were granted to Non-Executive Directors in line with the 2019 EIP. These equity incentive awards were market value options over ADSs, and the vesting period is one year; vesting in equal monthly instalments over the one-year period following grant date. No performance conditions were attached to the awards.

	ADS options granted February 20, 2020	Exercise Price per ADS ($)	Face value ($)
Dr. Peter Fellner	11,000	1.84	20,240
Dr. Anders Ekblom	11,000	1.84	20,240
Peter Bains	11,000	1.84	20,240
Kunal Kashyap	11,000	1.84	20,240
Paul Blackburn	11,000	1.84	20,240
Dr. Deepa Pakianathan	11,000	1.84	20,240
Michael Wyzga	11,000	1.84	20,240

On behalf of the Board,

Peter Bains
Chair of the Remuneration Committee

June 15, 2020

The Directors present their report together with the audited financial statements for the year ended December 31, 2019.

Principal activities
The Strategic Report on pages 4 to 34 describes the Group's principal development activities and strategy.

We are a biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for oncology and rare diseases. On April 23, 2019 we completed the acquisition of OncoMed, Pharmaceuticals, Inc, ("OncoMed") and a new listing of American Depository Shares ("ADSs") on the Nasdaq Global Market (NASDAQ: MREO) whilst retaining our AIM listing (AIM: MPH). Since completing the acquisition, we now operate from sites in the U.K. and the U.S.

Results and dividends
The Group recorded a total comprehensive loss for the year attributable to equity holders of the parent of £35.3 million (2018: £32.0 million). Further details are given in the Strategic Report and in the consolidated financial statements.

The Directors do not recommend payment of a dividend.

Research and development
For the financial year ended December 31, 2019, we spent £23.6 million (2018: £22.7 million) on research and development activity.

Research and development spend primarily reflects the underlying activity on clinical trials for our products as well as the manufacturing of drug product together with the internal costs, including payroll directly attributable to these activities. In addition, we acquired additional product programs through our acquisition of OncoMed. Further details of our product programs and research and development spend can be found within the Strategic Report.

Statement of corporate governance arrangements
The Board of Directors of the Company recognises the importance of corporate governance and, since 2018, has decided to apply the Corporate Governance Code published by the Quoted Companies Alliance (the "QCA Code"). The QCA Code sets out a standard of minimum best practice for small and mid-size quoted companies.

The QCA's ten principles of corporate governance are set out in the content on our website, which links each principle of corporate governance to our annual report and / or other location on the website.

The Company has not departed from the QCA Code during the year.

Information on environmental matters
The Company is required to measure and report its greenhouse gas emissions.

Our greenhouse gas emissions report period will be aligned to the financial reporting year and, as such, the first year will be reported as the baseline year against which future performance will be measured. Therefore, no greenhouse gas emissions report is included in this Directors' report for the period between April 2019 and December 2019.

Post-balance sheet events

Further information on post-balance sheet events is provided in Note 30 within the consolidated financial statements contained within this report.

- On January 13, 2020, the Company announced a global licensing agreement with Oncologie, Inc. ("Oncologie") for the development and commercialization of navicixizumab.

- On February 10, 2020, the Company entered into a $3.8 million convertible equity financing with Novartis Pharma (AG) ("Novartis"). Under the terms of the convertible equity financing, Novartis invested £3.8 million through a convertible loan note. The loan note is convertible at any time at a fixed price of £0.265 per ordinary share. In connection with the loan note, the Company issued a warrant instrument to Novartis to purchase up to 1,449,614 of the Company's ordinary shares.

- On February 10, 2020, the Company entered into a Securities Purchase Agreement to issue up to $28 million of the Company's ordinary shares exchangeable for American Depositary Shares, including a $3 million initial purchase, with Aspire Capital Fund, LLC. In exchange for the $3 million initial purchase the Company issued 11,423,925 ordinary shares (equivalent to 2,286,585 ADSs).

- On February 19, 2020, the Company entered into a Securities Purchase Agreement with Boxer Capital, LLC to make an investment of $3 million to purchase 12,252,715 of the Company's ordinary shares (equivalent to 2,450,543 ADSs).

- On February 20, 2020, the Company granted 962,836 market value options over ADSs under the Mereo 2019 Equity Incentive Plan to certain Executive Directors and other employees at an exercise price of $1.84 per ADS. On the same date, the Company granted 77,000 market value options over ADSs under the Mereo 2019 Non-Executive Director Equity Incentive Plan to certain Non-Executive Directors at an exercise price of $1.84 per ADS.

- Following the transactions noted above, it is anticipated that a further 362,534 additional warrants will be issued to the lenders of the bank loan facility giving them the right to subscribe for ordinary shares at an exercise price of £2.95.

- On March 27, 2020, we announced the resignation of Richard Jones. Michael Wyzga, a Non-Executive Director, will assume the role of Interim Chief Financial Officer following the departure of Richard Jones. Richard Jones will remain in his position as CFO for a transitionary period of up to five months.

- On 4 June 2020, we announced completion of a private placement offering of $70 million (£56 million) (the "Fundraising") before commission and expenses with a number of new and existing principally U.S based institutional and accredited investors. OrbiMed led the Fundraising with participants including Vivo Capital, Surveyor Capital (a Citadel company), Pontifax Venture Capital, Samsara BioCapital, Commodore Capital, and funds managed by Janus Henderson Investors alongside existing investors Boxer Capital of Tavistock Group and Aspire Capital Fund, LLC.

Going concern

As at May 31, 2020 the group had total cash resources[(1)] £10.1 million. Taken together with the private placement which completed on June 3, 2020 and which raised net proceeds of approximately £51.4 million, the group has current total cash resources of £61.5 million.

The Directors have prepared detailed cashflow forecasts for the 30-month period to December 31, 2022 based on the delivering the business plan objectives set out in the strategic report which include:

- Completion of the adult Phase 2b extension study for setrusumab
- Completion of the current Phase 2 study for alvelestat
- Commencement later in 2020 of a new Phase 1b study for etiligimab

These forecasts indicate that the group has a total cash runway into 2022 and will have sufficient funds to meet its liabilities as they fall due for at least the next 12 months.

In preparing these forecasts the directors have considered the impact of COVID-19 and in particular the unprecedented burden on health systems in impacted countries around the world. As a result, clinical centres have diverted resources away from the performance of clinical trials and because of that and the vulnerability of patients in the Company's setrusumab clinical development program for osteogenesis imperfecta (OI) and its Phase 2 alvelestat program for patients with alpha-1 antitrypsin deficiency (AATD), the Company's clinical activities will face some delays. AATD patients, in particular, are at greater risk from COVID-19 given that the condition is a respiratory and lung condition, for this reason, our Phase 2 alvelestat trial will be delayed with topline data now expected in 2021. Subject to a partnership, we are also currently planning to initiate a Phase 3 study in children with OI in late 2020, however, the initiation of the study may also be delayed.

In addition, the Directors have considered a downside scenario involving an increase in operating overheads, an increase in the costs of setting up and running the planned Phase 1b study for etiligimab when this study is contracted out to third parties and increased investment in manufacturing development costs for setrusumab. In addition, In this scenario the forecasts also indicate that the group will have sufficient funds to meet its liabilities as they fall due for at least the next 12 months.

In both scenarios the Directors have not taken into account potential income from partnering one or more of its assets which would increase the cash resources available to the Group.

In conclusion, although 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 development 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 (as described more fully in Note 30) 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.

(1) Total cash resources are a non-GAAP measure being cash and short-term deposits and short-term investments.

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
Dr. Denise Scots-Knight – Chief Executive Officer
Richard Jones – Chief Financial Officer

Non-executive directors
Dr. Peter Fellner
Peter Bains
Paul Blackburn
Dr. Anders Ekblom
Kunal Kashyap

Michael Wyzga	appointed April 23, 2019
Dr. Deepa Pakianathan	appointed April 23, 2019
Frank Armstrong	resigned February 8, 2019

On March 27, 2020, we announced the resignation of Richard Jones. Michael Wyzga, a Non-Executive Director, will assume the role of Interim Chief Financial Officer following the departure of Richard Jones. Richard Jones will remain in his position as CFO for a transitionary period of up to five months.

Brief biographical details of the current directors of the Company are provided within the Corporate Governance report on pages 43 to 45.

As at the date of this report, the directors held shares representing 2.0%% of the equity of the Company. Details of the directors' shareholdings and their options over shares in the Company are disclosed in the Directors' Remuneration Report on pages 49 to 71.

Financial risk management objectives and policies (including information on exposure to price risk, credit risk, liquidity risk and cash flow risk)
Refer to Note 25 of the consolidated financial statements for further details on our financial risk management objectives and policies.

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, 2019 and December 31, 2018.

Share capital
As at the date of this report, the Company had total issued and fully paid up share capital of £640,957.46 representing 213,652,487 ordinary shares of £0.003, all of which rank pari passu. All shares are admitted to trading on the AIM Market of the London Stock Exchange ("AIM") and each share carries the right to one vote at general meetings of the Company. No shareholder holds shares carrying special rights with regard to control of the Company.

ADSs are traded on the Nasdaq Global Market. Each ADS represents five ordinary shares.

Purchases of own shares during the year
During the year ended December 31, 2019, the Group purchased £1.0 million of its own shares through an Employee Benefit Trust ("EBT"), which is controlled by the Group.

As at December 31, 2019, a total of 1,237,274 own shares were held by the EBT.

Branches outside the U.K.
As at December 31, 2019, the Group consists of certain subsidiaries which are incorporated outside the United Kingdom. Further information can be found in Note 6 of consolidated financial statements.

Substantial interests
As at June 8, 2020, on the basis of the best information available to the Company, derived from the register of members as at May 29, 2020, the details of the Fundraising and notifications of Shareholders' voting rights received by the Company up to June 8, 2020, the following investors are currently believed to have interests of 3 per cent. or more of the issued share capital of the Company:

Name and address of beneficial owner	Number of Ordinary Shares Beneficially Owned as of June 8, 2020	Percentage of Ordinary Shares Beneficially Owned
3% or Greater Shareholders:		
Tavistock Group	21,151,595	9.9%
OrbiMed funds	20,061,437	9.4%
Baker Brothers	20,061,437	9.4%
Link Fund Solutions	19,031,915	8.9%
Aspire Capital Fund, LLC	16,970,378	7.9%
Novartis Pharma AG	15,703,871	7.4%
Vivo funds	13,374,291	6.3%
Schroders plc	7,845,873	3.7%
Invesco Ltd	7,620,000	3.6%

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 ("AGM")
The 2019 AGM of the Company will be held on June 29, 2020. The notice of the meeting, together with an explanation of the business to be dealt with including proposed resolutions, has been prepared as a separate document and was distributed to shareholders and posted to our website.

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' 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.

Effective date
This report was approved by the Board of Directors by written resolution and signed on its behalf by:

Peter Fellner	**Charles Sermon**
Chairman	General Counsel and Company Secretary
June 15, 2020	June 15, 2020

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 the financial year ended December 31, 2019, 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") and adopted by the E.U. and in accordance with Companies Act 2006.

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 to enable them to ensure that its financial statements and Directors' 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

General Counsel and Company Secretary

June 15, 2020

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 2019 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 2019	Balance sheet as at 31 December 2019
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 12 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 30 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 (IFRSs) as adopted by the European Union, and, as regards to the parent company financial statements, 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 (UK) (ISAs (UK)) 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 UK, 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 (UK) 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 authorised for issue.

Overview of our audit approach

Key audit matters	• Assessment of carrying value of intangible assets • Acquisition accounting, including purchase price allocation • Going concern assessment and impact of COVID-19 • Investment in subsidiaries (parent)
Audit scope	• We performed an audit of the complete financial information of four components and audit procedures on specific balances of one component • The components where we performed full or specific audit procedures accounted for 100% of group operating costs and 100% of total assets
Materiality	• Overall group materiality of £0.8 million which represents 2% of operating costs excluding share-based payment expenses

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
Assessment of carrying value of intangible assets Refer to the Accounting policies (pages 92 to 100); and Note 13 of the Consolidated Financial Statements (pages 114 to 116) £44.5 million (2018 – £32.6 million) 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 judgemental. For products in development the key assumptions include; development costs, launch dates of products, probability of successful development, sales price and projections, expense and cash flow projections and discount rate. The risk is that there may be errors in these judgments resulting in the misstatement of the carrying value of intangible assets.	Our principal audit procedures included: • We understood the methodology applied by management in performing its impairment test and walked through the controls over the process. • We performed audit procedures to test the arithmetic accuracy and assess the integrity of the model. We evaluated, including the key assumptions being used, such as the reasonableness of future revenues, development costs and cash flow projections, the probability of obtaining regulatory approvals, launch dates of products and the discount rate. We considered comparable drug development projects and corroborated to third party assessments. • Performed sensitivity analyses over individual intangible asset models, to assess the level of sensitivity to the key assumptions and focused our work in those areas. • Assessed 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. • Interviewed key research and development personnel to corroborate the assumptions used. • We engaged EY valuations specialists who tested the Group's discount rate. Their procedures included using independent data sources to assess the key assumptions including the Group specific risk premium and comparison with peer companies. We recalculated the discount rate to ensure management's discount rate was within an acceptable range.	We have concluded that the assumptions made by management are reasonable and we concurred with management that no impairments were required at year-end. Management describes the sensitivities appropriately in the intangible assets notes to the Group financial statements in accordance with IAS 36 *Impairment of assets.*

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	• Challenged 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. • Analysed the historical accuracy of budget to actual results to determine whether the forecasts are reliable based on past performance and considering commentary in analyst forecasts to identify any contrary views. • Discussed the post year-end change in business strategy with key management and confirmed this has not impacted the underlying assumptions within the impairment models, validating to market data as appropriate. • Assessed the adequacy of related disclosures in the Group's financial statements.	
Acquisition accounting, including purchase price allocation Refer to the Accounting policies (pages 92 to 100); and Note 5 of the Consolidated Financial Statements (pages 104 to 106). On 23 April 2019 the Group acquired 100% of OncoMed Pharmaceuticals Inc. for a total consideration of £40.9 million settled through the issue of shares. We have determined this to be a key audit matter given the management judgement in determining that this transaction met the definition of a business combination, the estimates made on the provisional PPA and the adjustments made to align accounting policies with those of the Group.	Our principal audit procedures included: • Obtained and evaluated the accounting analysis of IFRS 3 *Business Combinations* prepared by management. • Verified the consideration paid (including contingent consideration) to supporting evidence. • Tested the professional fees incurred and verified appropriate classification between capitalised and expensed fees. • Selected a sample of items from the opening balance sheet of OncoMed Pharmaceuticals, Inc. and corroborated the amounts to supporting documentation, including invoices and third party support to ensure they have been appropriately recognised in line with Group accounting policies. • Engaged our EY valuation specialists to test the methodology and discount rate used in the valuation of the acquired identified intangible assets, comparing key assumptions to comparable biotechs including the risk beta and market data.	We have concluded that the judgements made by management in accounting for the acquisition as a business combination are reasonable, and that the fair values ascribed to the acquired assets and liabilities are appropriate. We are satisfied that the additional disclosures relating to the acquisition included in the financial statements are consistent with our knowledge from the audit and are in compliance with IFRS 3 *business combinations.*

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Under business combination accounting, a gain on bargain purchase of £3.7 million was recognised and a separately identifiable intangible asset of £12.7 million was recognised. There is a risk for the financial statements that the fair value of the intangible asset has not been determined appropriately.	• We assessed the appropriateness of the valuation model used through discussions with management and comparison to market data. Tested the cash flow forecasts and assumptions included within, notably the future revenues, development costs and cash flow projections, the probability of obtaining regulatory approvals and launch dates of products, in respect of the acquired intangible assets. • Assessed the availability of information at acquisition date and management's conclusions that no revisions to the initial purchase price allocation were required at year end. • Assessed adequacy and appropriateness of the disclosures in the financial statements.	
Going concern assessment and impact of COVID-19 Refer to the Accounting policies (pages 92 to 100); and Note 2 and 30 of the Consolidated Financial Statements. We have identified the assessment of the going concern basis of accounting as a key audit matter as the Group had £16.4 million cash as at 31 December 2019 and required a future fundraising event to continue as a going concern. On [4] June 2020 the Group completed a £56 million ($70 million) private placement resulting in a revised cash flow forecast and a change in business strategy for the Group. The revised forecast reflects management's assessment of the COVID-19 impact on the Group which is disclosed in the going concern Note 2 and the post balance sheet Note 30.	Our principal audit procedures included: • We analysed management's assessment of going concern to gain an understanding of the inputs and process underpinning the cash flow model prepared for the purpose of the going concern conclusion. • We verified that the cash flow model accurately reflects the post balance sheet events by agreeing all proceeds received to bank statements and reviewing executed deal documents. • We obtained an understanding of the terms included within the private placement and ensured the cashflow model was prepared on a consistent basis. • We challenged the inputs and assumptions within the going concern model including the level of forecast research and development (R&D) and general and administrative expenditure, particularly those updated for the changes in R&D activity and COVID-19 impact. We compared the assumptions and estimates used to those applied elsewhere in the preparation of the financial statements and corroborated amounts to supporting evidence	The disclosures in note 2 and note 30 appropriately reflect the basis for the Directors' going concern assessment including the impact of the change in business strategy and COVID-19. We conclude the going concern assumption remains appropriate, and the disclosures appropriately reflect the key assumptions and uncertainties inherent in the forecasts upon which that conclusion relies.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The Group believes it has sufficient liquidity to meet its financial obligations as they fall due for the twelve months subsequent to the approval of the financial statements.	• Analysed the historical accuracy of budget to actual results to determine whether the forecasts are reliable based on past performance and considering commentary in analyst forecasts to identify any contrary views. • We held meetings with key clinical personnel to validate the planned R&D spend profile included within the forecast. • We challenged the sensitivities and stress testing that management performed on the going concern forecast and agreed with the sensitivities applied. • We evaluated the appropriateness of management's conclusions in light of the revised forecast and executed private placement agreement. • Assessed adequacy and appropriateness of the disclosures in the financial statements.	
Investment in subsidiaries (parent) Refer to the Accounting policies (pages 92 to 100); and Note 4 of the parent Financial Statements (page148). £156 million (2018 – £123 million). The Parent Company's principal activity is to manage and support the investment in a number of subsidiaries which hold the intangible assets being progressed through clinical trials. There is judgement involved in assessing the recoverable amount of the investments which involves significant judgement over the future activities of each subsidiary. There is a risk that the investments may be impaired below their carrying value.	Our principal audit procedures included: • We obtained details of the investment carrying amounts in subsidiaries and compared this to the net assets of those entities. • We compared the market capitalisation of the group to the carrying value of the investments to identify if any indicators of impairment existed. • We leveraged the intangible asset impairment work to test whether the carrying value of investments is supportable at year end by comparing it to the investment carrying value. • We assessed management's conclusion that impairment was required in respect of one subsidiary. • Analysed the historical accuracy of budgets to actual results to determine whether the forecasts are reliable based on past performance and considering commentary in analyst forecasts to identify any contrary views. • Assessed the adequacy of related disclosures in the parent company's financial statements.	We concluded that the carrying value of the investments recognised in the parent company balance sheet is supportable, and the impairment of £19.2 million recognised is appropriate. We are satisfied that the disclosures are appropriate.

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 organisation 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.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 5 components of the 8 components in total covering entities within the United Kingdom and United States, which represent the principal business units within the Group.

Of the five components, we performed an audit of the complete financial information of four components ("full scope components") which were selected based on their size or risk characteristics. For the remaining one component ("specific scope component"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

We performed audit procedures accounting for 100% (2018: 100%) of the Group's operating costs and 100% (2018: 100%) of the Group's Total assets. All audit procedures were undertaken by the central UK audit team. For the current year, the full scope components contributed 85% (2018: 100%) of the Group's operating costs and 58% (2018: 100%) of the Group's Total assets. The specific scope component contributed 15% (2018: 0%) of the Group's operating costs and 42% (2018: 0%) of the Group's Total assets.

Changes from the prior year

Pursuant to the Group completing the acquisition of OncoMed Pharmaceuticals Inc. during the year, we included this as a specific scope component.

Involvement with component teams

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

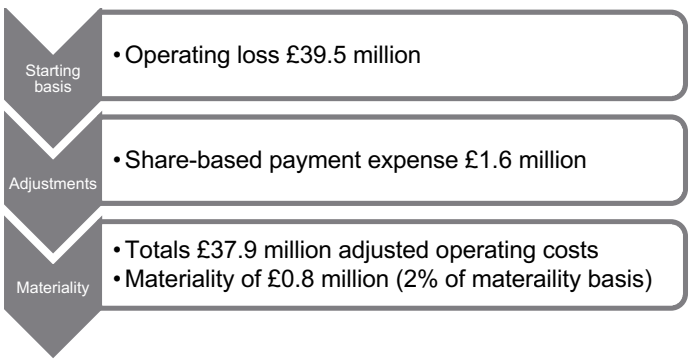
Our application of materiality

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 £0.8 million (2018: £0.7 million), which is 2% (2018: 2%) of operating costs excluding share-based payment expense. 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 £5.0 million (2018: £3.9 million), which is 3% (2018: 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 is to 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 judgement was that performance materiality was 50% (2018: 50%) of our planning materiality, namely £0.38 million (2018: £0.35 million). We have set performance materiality at this percentage due to the rate of change in the business.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.08 million to £0.23 million (2018: £0.1 million to £0.35 million).

Reporting threshold

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.038 million (2018: £0.035 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 77, 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, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with 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 statements and the part of the Directors' remuneration report to be audited 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 77, 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 (UK) 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

June 15, 2020

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.

for the years ended December 31, 2017, 2018 and 2019

	Notes	Year ended December 31, 2017	2018 (in £'000)	2019
Research and development expenses		(34,607)	(22,703)	(23,608)
Administrative expenses		(10,697)	(11,775)	(15,909)
Operating loss		(45,304)	(34,478)	(39,517)
Net income recognized on acquisition of subsidiary	5	—	–	1,035
Finance income	9.1	827	307	377
Finance charge	9.2	(1,090)	(3,091)	(3,496)
Net foreign exchange (loss)/gain		(1,384)	(44)	483
Loss before tax	7	(46,951)	(37,306)	(41,118)
Taxation	10	8,152	5,277	6,274
Loss attributable to equity holders of the parent		(38,799)	(32,029)	(34,844)
Other comprehensive income – items that may be reclassified to profit or loss				
Net fair value gain/(loss) on investments in debt instruments held at fair value	25	–	–	–
Exchange differences on translation of foreign operations		–	—	(499)
Other comprehensive income, net of tax		–	–	(499)
Total comprehensive loss attributable to equity holders of the parent		(38,799)	(32,029)	(35,343)
Basic and diluted loss per share	11	(0.56)	(0.45)	(0.39)

The accompanying notes form an integral part of these consolidated financial statements.

as at December 31, 2018 and 2019

	Notes	Year Ended December 31, 2018	2019
		(in £'000)	
Assets			
Non-current assets			
Property, plant and equipment	12	149	11,558
Intangible assets	13	32,632	44,456
		32,781	56,014
Current assets			
Prepayments		1,067	2,111
R&D tax credits	10	5,277	10,426
Other taxes recoverable	10	–	979
Other receivables	15	609	572
Short-term investments	17	2,500	–
Cash and short-term deposits	16	25,042	16,347
		34,495	30,435
Total assets		67,276	86,449
Equity and liabilities			
Equity			
Issued capital	18	214	294
Share premium	18	118,492	121,684
Other capital reserves	18	18,593	59,147
Employee Benefit Trust shares	28	(307)	(1,305)
Other reserves	18	7,000	7,000
Accumulated loss	18	(111,221)	(146,065)
Translation reserve	18	–	(499)
Total equity		32,771	40,256
Non-current liabilities			
Provisions	20	2,641	1,449
Interest-bearing loans and borrowings	19	14,647	5,373
Warrant liability	21	1,006	131
Other liabilities	22	34	44
Lease liability	4	–	9,318
		18,328	16,315
Current liabilities			
Trade and other payables	23	4,570	6,352
Accruals	23	4,437	5,138
Provisions	20	332	309
Interest-bearing loans and borrowings	19	6,838	15,139
Contingent consideration liability	25	—	354
Lease liability	4	–	2,586
		16,177	29,878
Total liabilities		34,505	46,193
Total equity and liabilities		67,276	86,449

The accompanying notes form an integral part of these consolidated financial statements.

Approved by the Board on June 14, 2020 and signed on its behalf by:

Dr. Denise Scots-Knight
Director

Richard Jones
Director

Company number: 09481161 (England and Wales)

for the years ended December 31, 2017, 2018 and 2019

	Notes	Year ended December 31, 2017	2018 (in £'000)	2019
Operating activities				
Loss before tax		(46,951)	(37,306)	(41,118)
Adjustments to reconcile loss before tax to net cash flows:				
Depreciation of property, plant and equipment	12	36	39	1,577
Share-based payment expense	26	3,652	2,190	1,636
Net foreign exchange loss/(gain)		1,384	44	(483)
Provision for social security contributions on employee share options	20	1,116	(1,446)	(738)
Provision for deferred cash consideration	9.1 & 20	–	443	221
Interest earned	9.1	(827)	(307)	(377)
Finance charges	9.2	1,090	1,916	3,731
Modification gain on bank loan	9.2 & 19	–	–	(456)
Modification loss on bank loan	9.2 & 19	–	730	–
Gain on bargain purchase	5	–	—	(3,681)
Fair value remeasurement on contingent consideration	25	–	–	354
Working capital adjustments:				
(Increase)/decrease in trade and other receivables		(840)	804	(936)
Increase/(decrease) in trade and other payables		3,860	1,602	(6,730)
Tax received	10	5,331	8,152	1,069
Net cash flows (used in) operating activities		(32,149)	(23,139)	(45,931)
Investing activities				
Cash acquired from acquisition	5	–	–	10,074
Purchase of property, plant and equipment	12	(16)	(36)	(21)
Disposal of property, plant and equipment	12	—	2	–
Purchase of license	13	(2,280)	–	–
(Investments)/proceeds from sale of short-term investments	17	(2,500)	–	32,865
Interest earned		1,052	286	377
Net cash flows (used in)/from investing activities		(3,744)	252	43,295
Financing activities				
Proceeds from issue of ordinary shares	18	15,000	273	–
Transaction costs on issue of shares	18	(730)	(8)	(761)
Proceeds from issue of bank loan	19	20,000	455	–
Transaction costs on bank loan		(200)	(921)	–
Interest paid on bank loan		(327)	(1,645)	(1,739)
Proceeds from TAP agreement	22	—	78	–
Purchase of treasury shares	28	–	(307)	(998)
Payment of lease liabilities	4	–	–	(2,212)
Net cash flows from/(used in) financing activities		33,743	(2,075)	(5,710)
Net (decrease) in cash and cash equivalents		(2,150)	(24,962)	(8,346)
Cash and cash equivalents at January 1		53,578	50,045	25,042
Effect of exchange rate changes on cash and cash equivalents		(1,383)	(41)	(349)
Cash and cash equivalents at December 31	16	50,045	25,042	16,347

The accompanying notes form an integral part of these consolidated financial statements.

for the years ended December 31, 2017, 2018 and 2019

	Issued capital	Share premium	Other capital reserves	Employee Benefit Trust	Other reserves	Accum-ulated losses	Translation reserve	Total equity
				(in £'000)				
At December 31, 2016	193	99,975	12,666	–	7,000	(40,579)	–	79,255
Loss for the year to December 31, 2017	–	–	–	–	–	(38,799)	–	(38,799)
Share-based payments – share options (Note 26)	–	–	3,028	–	–	–	–	3,028
Share-based payments – LTIPs (Note 26)	–	–	298	–	–	–	–	298
Share-based payments – deferred bonus shares (Note 26)	–	–	326	–	–	–	–	326
Share-based payments – deferred equity consideration (Note 26)	–	–	1,331	–	–	–	–	1,331
Issue of share capital on April 4, 2017 (Note 18)	15	14,985	–	–	–	–	–	15,000
Issue of share capital on conversion of loan note (Note 18)	2	1,397	–	–	–	–	–	1,399
Issue of share capital for Novartis bonus shares (Note 18)	2	1,081	(1,083)	–	–	–	–	–
Equity element of convertible loan (Note 19)	–	–	(207)	–	–	–	–	(207)
Conversion of convertible loan (Note 19)	–	–	–	–	–	62	–	62
Issue of share capital on October 31, 2017 (Note 18)	1	1,519	–	–	–	–	–	1,520
Transaction costs on issuance of share capital (Note 18)	–	(730)	–	–	–	–	–	(730)
At December 31, 2017	213	118,227	16,359	–	7,000	(79,316)	–	62,483
Loss for the year to December 31, 2018	–	–	–	–	–	(32,029)	–	(32,029)
Adoption of IFRS 9 (Note 4)	–	–	–	–	–	124	–	124
Share-based payments – share options (Note 26)	–	–	1,871	–	–	–	–	1,871
Share-based payments – LTIPs (Note 26)	–	–	319	–	–	–	–	319
Issue of share capital on June 1, 2018 (Note 18)	–	150	–	–	–	–	–	150
Issue of share capital on August 3, 2018 on exercise of options (Note 18)	–	13	–	–	–	–	–	13
Issue of share capital on October 22, 2018 on exercise of options (Note 18)	1	110	–	–	–	–	–	111
Issue of warrants for TAP agreement (Note 18)	–	–	44	–	–	–	–	44
Transaction costs on issuance of share capital (Note 18)	–	(8)	–	–	–	–	–	(8)
Purchase of treasury shares (Note 28)	–	–	–	(307)	–	–	–	(307)
At December 31, 2018	214	118,492	18,593	(307)	7,000	(111,221)	–	32,771

	Issued capital	Share premium	Other capital reserves	Employee Benefit Trust	Other reserves	Accum-ulated losses	Translation reserve	Total equity
				(in £'000)				
Loss for the year to December 31, 2019	–	–	–	–	–	(34,844)	–	(34,844)
Currency translation of foreign operations	–	—	–	–	–	–	(499)	(499)
Net fair value gain/(loss) on investments in debt instruments held at fair value (Note 25)	–	–	—	–	–	–	–	–
Share-based payments – share options (Note 26)	–	–	1,543	–	–	–	–	1,543
Share-based payments – LTIPs (Note 26)	–	–	93	–	–	–	–	93
Issue of share capital on April 23, 2019 (Note 18)	74	–	40,818	–	–	–	–	40,892
Transaction costs related to issuance of share capital on April 23, 2019 (Note 18)	–	(761)	–	–	–	–	–	(761)
Issue of share capital on conversion of loan note (Note 18)	3	2,366	–	–	–	–	–	2,369
Issue of share capital on Novartis bonus shares (Note 18)	3	1,587	(1,590)	–	–	–	–	–
Equity element of convertible loan note (Note 18)	–	–	(310)	–	–	–	–	(310)
Purchase of treasury shares (Note 28)	–	–	—	(998)	–	–	–	(998)
At December 31, 2019	294	121,684	59,147	(1,305)	7,000	(146,065)	(499)	40,256

1. Corporate information

Mereo BioPharma Group plc (the "Company") is a clinical-stage, U.K.-based biopharmaceutical company focused on oncology and 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. The Company is also listed on the Nasdaq Global Market via American Depositary Shares ("ADSs") under the ticker symbol MREO. The Company's registered office is located at Fourth Floor, 1 Cavendish Place, London, W1G 0QF, United Kingdom.

The consolidated financial statements of Mereo BioPharma Group plc and its subsidiaries (collectively, the "Group") for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the Directors on June 14, 2020. The principal activities of the Group is the research and development of novel pharmaceutical products.

On April 23, 2019, the Group completed the acquisition of OncoMed Pharmaceuticals, Inc. ("OncoMed"), a company which is based in California and was previously a public company listed on the Nasdaq Global Market in the U.S.

2. Significant accounting policies

2.1 Basis of preparation

The Group's consolidated 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 statements are presented in pound sterling ("£'000"), which is the functional and presentational currency of the Group. All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units, unless otherwise stated.

2.2 Revision of previously issued financial statements

During 2019, we identified a classification error in our statement of comprehensive loss for the year ended December 31, 2018 related to loan modification expense. In correcting the error, administrative expenses reduced by £0.7 million and finance charges increased by an equivalent amount. There was no impact on net loss. We evaluated the materiality of the error quantitatively and qualitatively and concluded it was not material to our previously issued Consolidated Financial Statements as a whole for the year ended and as of December 31, 2018. Please refer to Financial statement notes 9 and 19.

2.3 Basis of consolidation

The consolidated financial information comprises the financial statements of Mereo BioPharma Group plc and its subsidiaries as at December 31, 2019. 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.

2.4 Segmental information

Management views the Group as a single portfolio of product candidates. Only research and development 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.

Following the acquisition of OncoMed during the year, non-current assets held by the Group are located in the United Kingdom and United States. As at December 31, 2019, approximately £22.4 million of non-current assets are located in the United States.

The Group's CODM is the executive leadership team which is comprised of several individuals including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). The executive leadership team is responsible for managing the operating results of the business.

The operations of the Group are mostly influenced by the timing of progression on underlying clinical development programmes across product candidates which remain under development.

2.5 Going concern

As at May 31, 2020 the group had total cash resources [1]£10.1 million. Taken together with the private placement which completed on June 3, 2020 and which raised net proceeds of approximately £51.4 million, the group has current total cash resources of £61.5 million.

The Directors have prepared detailed cashflow forecasts for the 30-month period to December 31, 2022 based on the delivering the business plan objectives set out in the strategic report which include:

- Completion of the adult Phase 2b extension study for setrusumab
- Completion of the current Phase 2 study for alvelestat
- Commencement later in 2020 of a new Phase 1b study for etiligimab

These forecasts indicate that the group has a total cash runway into 2022 and will have sufficient funds to meet its liabilities as they fall due for at least the next 12 months.

In preparing these forecasts the directors have considered the impact of COVID-19 and in particular the unprecedented burden on health systems in impacted countries around the world. As a result, clinical centres have diverted resources away from the performance of clinical trials and because of that and the vulnerability of patients in the Company's setrusumab clinical development program for osteogenesis imperfecta (OI) and its Phase 2 alvelestat program for patients with alpha-1 antitrypsin deficiency (AATD), the Company's clinical activities will face some delays. AATD patients, in particular, are at greater risk from COVID-19 given that the condition is a respiratory and lung condition, for this reason, our Phase 2 alvelestat trial will be delayed with topline data now expected in 2021. Subject to a partnership, we are also currently planning to initiate a Phase 3 study in children with OI in late 2020, however, the initiation of the study may also be delayed.

In addition, the Directors have considered a downside scenario involving an increase in operating overheads, an increase in the costs of setting up and running the planned Phase 1b study for etiligimab when this study is contracted out to third parties and increased investment in manufacturing development costs for setrusumab. In addition, In this scenario the forecasts also indicate that the group will have sufficient funds to meet its liabilities as they fall due for at least the next 12 months.

In both scenarios the Directors have not taken into account potential income from partnering one or more of its assets which would increase the cash resources available to the Group.

In conclusion, although 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 development 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 (as described more fully in Note 30) 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.

[1]Total cash resources are a non-GAAP measure being cash and short-term deposits and short-term investments

2.6 Summary of significant accounting policies

a) Taxes

Tax expense recognized in the statement of comprehensive income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax assets and / or liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period within the jurisdictions that the Group operates in.

Amounts receivable in respect of research and development tax credits are recognized in the financial statements provided there is sufficient evidence that the amounts are recoverable. These credits are recognized within income tax in the consolidated statement of comprehensive loss.

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.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments (IFRIC 23), which addresses how uncertain tax positions should be accounted for under IFRS. IFRIC 23 requires that, where acceptance of the tax treatment by the relevant tax authority is considered probable, it should be assumed as an accounting recognition matter that treatment of the item will ultimately be accepted. Therefore, no tax provision would be required in such cases. However, if acceptance of the tax treatment is not considered probable, the entity is required to reflect that uncertainty using an expected value (i.e., a probability-weighted approach) or the single most likely amount. IFRIC 23 is mandatorily effective for accounting periods beginning on or after 1 January 2019 and any resulting change to the tax provisions should be recognized in retained earnings. Mereo has recognized a net tax expense of nil in retained earnings on 1 January 2019 in respect of the adoption of IFRIC 23.

b) Foreign currencies

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

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 the consolidated statement of comprehensive loss, as well as gains or losses on the retranslation of foreign currency balances at the year end.

The results and financial position of Group entities that have a functional currency different from the presentational currency of the Group are translated into the presentational currency (pound sterling). The assets and liabilities of such entities are translated into pound sterling at the rate of exchange ruling at the

balance sheet date. Income and expenses are translated at the average rate for the period. Fair value adjustments arising on acquisition of such entities are treated as assets and liabilities of the relevant entity and translated into pound sterling at the closing rate. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

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

The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned – for the Group this is property, plant and equipment. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset:

- Right-of-use asset (building) six to nine years
- Right-of-use asset (equipment) one to two 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) Business combinations

Business combinations are accounted for using the acquisition method of accounting. At the date of the acquisition, the Group initially recognizes the fair value of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business.

The consideration transferred is measured at fair value at the date acquisition. The excess of the consideration transferred over the fair value of net identifiable assets of the business acquired is recorded as goodwill, unless the amount of consideration transferred is less than the fair value of net identifiable assets of the business acquired in which case the difference is recognized directly in the consolidated statement of comprehensive loss as a bargain purchase. A valuation is performed of assets and liabilities assumed on each acquisition accounted for as a business combination based on our best estimate of fair value.

Where the settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value. Contingent consideration is classified either as equity or a financial liability and is recognized at fair value on the acquisition date. Amounts classified as a financial liability are subsequently remeasured to fair value in accordance with IFRS 9 (Financial Instruments), with changes in fair value recognized in the consolidated statement of comprehensive loss as an administrative expense.

Directly attributable acquisition-related costs are expensed as incurred within the consolidated statement of comprehensive loss.

d) Leases (IFRS 16)

Effective January 1, 2019, the Group implemented IFRS 16 (Leases). IFRS 16 (Leases) replaces existing guidance, including IAS 17 (Leases), and sets out the principles for recognition and measurement of leases. The new standard results in an increased volume of disclosure information in these consolidated financial statements.

For further information, refer to Note 4.

e) Intangible assets

Intangible assets are initially recorded at cost which has been determined as the fair value of the consideration paid and payable. Assets that have been acquired through a business combination are initially recorded at fair value. The fair value of consideration is regularly reviewed based on the probability of achieving contractual milestones.

Intangible assets are reviewed for impairment at each reporting date by allocating the assets to the cash-generating units to which they relate. The estimated useful life is the lower of the legal duration and economic useful life. The estimated useful lives of intangible assets are reviewed on an at least annual basis.

Where the consideration paid or payable is in shares, the cost is measured in accordance with IFRS 2 (Share Based Payments).

Amortization would commence when product candidates underpinned by the intangible asset 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.

f) Financial instruments

Financial assets and liabilities are recognized in the consolidated balance sheet only when the Group becomes party to the contractual provisions of the instrument.

Financial assets

On initial recognition, a financial asset is classified into one of three primary measurement categories:

- Amortized cost;
- Fair value through OCI ("FVOCI"); or
- Fair value through profit or loss ("FVTPL").

The initial classification into a primary measurement category depends on the nature and purpose of the financial asset.

For each reporting period covered herein, the Group's financial assets were restricted to financial assets held at FVOCI. This relates to short-term investments which are not classified as cash and short-term deposits and are held in a business model whose objective is achieved by both collecting contractual cash flows and selling the short-term investment on maturity.

For short-term investments, interest income and impairment gains or losses are recognized directly in the consolidated statement of comprehensive loss. The difference between cumulative fair value gains or losses and the cumulative amounts recognized in the consolidated statement of comprehensive loss is recognized in other comprehensive income until derecognition, when the amounts in other comprehensive income are reclassified to the consolidated statement of comprehensive loss.

g) 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.

h) 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 12
- Intangible assets not yet available for use — Notes 13 and 14

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 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 cash-generating unit 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 cash-generating unit'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.

i) 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.

j) Short-term investments

Cash held on deposit for terms greater than three months are recognized at fair value in the balance sheet with fair value changes recognized in other comprehensive income. Interest revenue, impairment gains and losses, and a portion of foreign exchange gains and losses, are recognized in profit and loss.

When the short-term investment is derecognized or reclassified, changes in fair value previously recognized in other comprehensive income and accumulated in equity are reclassified to profit and loss.

k) Provisions

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.

l) Share-based payments

Employees (including 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 various plans (Note 26). Executive officer have outstanding 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 on grant date excludes the impact of any non-market vesting conditions – these are instead taken into account by adjusting the number of equity instruments included in the measurement of the share-based payment transaction and are adjusted each period until such time as the equity instruments vest.

Share options awarded to non-employees 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.

m) Costs of issuing capital

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.

n) 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 is included in equity.

o) Employee Benefit Trust

The Group operates an Employee Benefit Trust ("EBT"), the Mereo BioPharma Group plc Employee Benefit Trust.

The EBT has been established to fulfil awards made under the DBSP Plan and the LTIP 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.

Shares held by the EBT are included in the consolidated balance sheet as a reduction in equity.

The Group treats the EBT as an extension of the Group and the Company as it is ultimately controlled by the Company and therefore consolidated.

p) 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.

q) 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.

r) Bank loan

Borrowings (including interest-bearing loans) are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Under the effective interest method, amortization is included as a finance charge in the consolidated statement of comprehensive loss.

The Group's policy is to account for non-substantial modifications to financial liabilities measured at amortized cost through a gain or loss which is recorded in the consolidated statement of comprehensive

loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows, discounted at the original effective interest rate.

For substantial modifications, the Group's policy is to derecognize the existing financial liability and in turn recognize a new financial liability.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

s) Associated warrants

The Group has issued certain warrant instruments to its lenders (Note 19).

As the terms of the warrant instruments allow for a cashless exercise, the Group's policy is to account for the associated warrant instruments at fair value with changes in the fair value recognized in the consolidated statement of comprehensive loss (see Note 21).

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

The agreement is accounted for as a compound instrument which includes both debt and equity components. 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 judgments, estimates and assumptions

The preparation of these financial statements 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.

3.1 Judgments

a) Share-based compensation

Incentives in the form of shares are provided to employees under certain equity award plans (which consist of both share awards and option grants). The fair value of the employee services received in exchange for equity award plans is recognized as an expense. The expense is based upon a number of assumptions disclosed in Note 26. The selection of different assumptions in the measurement of fair value of the equity award plans could affect the results of the Group.

b) Business combination

On April 23, 2019, the Group obtained a 100% controlling interest in OncoMed, a Company based in the U.S. which was previously listed on the Nasdaq Global Market.

Judgement is applied under IFRS 3 (Business Combinations) in determining whether a transaction meets the definition of a business combination, and so accounted for in accordance with its requirements. In applying this judgement, management has considered the underlying economic substance of the transaction in addition to the contractual terms. Our assessment is that OncoMed meets the definition of a 'business' and the transaction has therefore been accounted for as a business combination. Please refer to Note 5 for further details regarding the OncoMed acquisition.

c) 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 14), right-of-use assets, leasehold improvements, office equipment and IT equipment as at December 31, 2019.

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 significant judgments regarding the likelihood of successful product

approval, the costs of reaching approval, the estimated useful life of intangible assets following commercialization and the subsequent commercial profitability of the product once approved.

d) IFRS 16 (Leases) discount rate

Following the adoption of IFRS 16 (Leases) on January 1, 2019, the Group is required discount future lease payments using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the incremental borrowing rate. IFRS 16 (Leases) defines the incremental borrowing rate as the rate of interest a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use assets in a similar economic environment.

For the year ended December 31, 2019, the determination of an appropriate discount rate has a significant effect on the lease liabilities recognized (see Note 4). For the current lease portfolio, the Group has determined an incremental borrowing rate based on relevant and available information as the interest rate implicit in the lease arrangements cannot be readily determined.

In addition to the determination of an appropriate discount rate, the Group was also required to assess the lease term for qualifying leases. The determination of the lease term is judgmental as for certain qualifying leases held by the Group, the contract includes an extension option beyond the non-cancellable period for which the Group has the right to use the underlying asset. In applying this judgment, the Group considered the period over which it was reasonably certain to make use of the extension option.

3.2 Estimates

a) Fair value of intangible assets acquired in business combination

The Group performed a full valuation of the fair value of assets acquired and liabilities assumed following the acquisition of OncoMed.

Based on the assets acquired and liabilities assumed, specific consideration was applied to the valuation of the intangible asset acquired which required an estimation of the expected useful life and future cash flows of the intangible asset alongside the determination of an appropriate discount rate. The intangible asset acquired was valued using a risk adjusted net present value model.

b) Contingent consideration

The Group makes provision for the estimated fair value of amounts payable to the former shareholders of OncoMed under the Contingent Value Rights Agreement ("CVR"), which is accounted for as a contingent consideration liability.

At December 31, 2019, the Group estimates the fair value of the contingent consideration liability to be £0.4 million ($0.5 million), which is an increase from £nil on the date of acquisition (see Note 5). The increase in the fair value of the contingent consideration liability reflects the terms subsequently agreed with Oncologie, Inc. ("Oncologie") with respect to the global licensing agreement of navicixizumab ("Navi") (see Note 30). Total potential payments under the CVR on a gross, undiscounted basis, are approximately $80.0 million (see Note 5).

The estimated contingent consideration payable is based on a risk-adjusted, probability-based scenario. Under this approach the likelihood of future payments being made to the former shareholders of OncoMed under the CVR is considered. The estimate could materially change over time in line with the development plan and subsequent commercialization of the Navi product.

c) 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 (see Note 20). 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.

4. Changes in accounting policies

4.1 Changes in accounting policies 2019

Effective January 1, 2019, the Group has adopted IFRS 16 (Leases). IFRS 16 (Leases) replaces existing guidance, including IAS 17 (Leases), and sets out the principles for the recognition and measurement of leases. The new standard has resulted in an increased volume of disclosure information within these consolidated financial statements.

The Group has also implemented other minor amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

a) General impact of application of IFRS 16 (Leases)

The date of initial application of IFRS 16 for the Group is January 1, 2019.

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

b) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 (Determining Whether an Arrangement contains a Lease). The Group now assesses whether a contract is or contains a lease based on the new definition of a lease under IFRS 16 (Leases). Under IFRS 16 (Leases), a contract is or contains a lease, if the contract conveys a right to control the use of an identified asset in exchange for consideration.

On transition to IFRS 16 (Leases), the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 (Leases) only to contracts that were previously not identified as leases. Contracts that were identified as leases under IAS 17 and IFRIC 4 were not reassessed. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project.

The new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group. At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component based on their relative stand-alone prices.

c) Practical expedients adopted on transition

Certain practical expedients permitted by IFRS 16 are used by the Group, notably:

1) To not reassess, upon transition, whether an existing contract contains a lease (grandfather the previous assessment of whether a transaction was a lease under IAS 17 or IFRIC 4). The definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019;
2) The recognition exemptions for short-term leases (less than 12 months of lease term) and the leases of low-value assets; and
3) Used hindsight when determining the lease term, if the contract contains options to extend or terminate the lease.

d) Financial impact

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities.

The table below sets out the adjustments recognized at the date of initial application of IFRS 16 which does not include the lease acquired as part of the OncoMed acquisition.

	As at December 31, 2018	Impact of IFRS 16	Restated as at January 1, 2019
Non-current assets			
Property, plant and equipment	149	2,552	2,701
Prepayments and other	1,067	(50)	1,017
Total impact on assets		2,502	
Current liabilities			
Trade and other payables	4,570	–	4,570
Lease liabilities	–	607	607
Non-current liabilities			
Lease liabilities	—	1,927	1,927
Accruals	4,437	(32)	4,405
Total impact on liabilities		(2,502)	
Total impact on retained earnings		–	

As at January 1, 2019, right-of-use assets related to a leased property (£1.2 million) and a lease of medical equipment used in ongoing clinical trials (£1.3 million).

Following the acquisition of OncoMed on April 23, 2019, the Group acquired an additional right-of-use asset related to a leased property in Redwood City, U.S. (£10.8 million).

The table below presents a reconciliation from operating lease commitments disclosed as at December 31, 2018 to lease liabilities recognized as at January 1, 2019.

Operating lease commitments disclosed under IAS 17 (at December 31, 2018)	536
Effect of discounting	(944)
Reassessment of lease term under IFRS 16	2,942
Lease liabilities recognised under IFRS 16 (at January 1, 2019)	2,534

Certain lease agreements include an option which allows the Group to extend the lease. The Group is reasonably certain that it will invoke the extension option on the lease of medical equipment used in ongoing clinical trials, as the Group expects that the studies will extend beyond the initial lease term. Where the Group is reasonably certain that the lease will be extended, the cash flows are included in the calculation of the lease liability.

The adoption of IFRS 16 (Leases) results in a decrease in other operating expenses in the consolidated statement of comprehensive loss where lease payments were previously recorded. IFRS 16 (Leases) results in an increase in depreciation and interest expense going forwards following the recognition of a right-of-use asset and lease liability.

The weighted average incremental borrowing rate applied to lease liabilities recognized on transition was 15.0%.

As at December 31, 2019, in relation to leases under IFRS 16 (Leases) the Group has recognized the following amounts in the consolidated statement of comprehensive loss:

Depreciation	1,505
Interest expense	1,314
Foreign exchange gain	29
Income from sub-leasing right-of-use assets	855

For the year ended December 31, 2019, within the consolidated statement of cash flows under IFRS 16 (Leases) the Group has opted to disclose both the cash paid for the interest portion and cash payments for the principal portion of the lease liability as part of financing activities. The adoption of IFRS 16 (Leases) did not have an impact on net cash flows.

The total cash outflow for leases amounted to £2.2 million during the year (2018: £0.3 million).

e) Subsequent updates

As at December 31, 2019, the lease term remaining on the medical equipment has been reassessed in line with the contractual agreement. The reassessment of lease term has been accounted for as a change in accounting estimate and the lease liability has been remeasured accordingly to reflect the change in estimated future lease payments. The carrying amount of the right-of-use asset has been adjusted for the remeasurement of the lease liability, both reduced by £0.3 million respectively.

4.2 Changes in accounting policies 2018

Effective January 1, 2018, the Group has adopted IFRS 9 (Financial Instruments) which 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 (Financial Instruments) 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 (Financial Instruments) requires the recognition of a modification gain or loss for exchanges or modifications of financial liabilities that do not result in the of a financial liability. As a result, under IFRS 9 (Financial Instruments) the carrying value of the convertible loan note as at the date of modification was adjusted to recognize the modification gain in retained earnings as of the date of initial application of January 1, 2018.

At January 1, 2018 (as calculated under IAS 39)	1,977
Amounts restated through retained earnings	(124)
At January 1, 2018 (as calculated under IFRS 9)	1,853

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.

5. Acquisition of subsidiary

On April 23, 2019, the Group obtained control of OncoMed, a Company based in the U.S., which was previously listed on the Nasdaq Global Market, by acquiring 100 per cent of its issued share capital.

OncoMed is a clinical-stage biopharmaceutical company focused on discovering and developing novel therapeutics that address the fundamental biology driving cancer's growth, resistance, recurrence and metastasis. OncoMed was acquired in order to broaden the Group's asset base, strengthen its cash position and obtain a US listing to diversify international shareholder base of the combined group.

The final acquisition accounting is set out below:

	OncoMed
Cash and short-term deposits	10,074
Short-term investments	29,019
Other receivables	155
Prepayments	1,699
Property, plant and equipment	82
Right-of-use assets	10,755
Identifiable intangible assets	12,693
Other liabilities	(9,215)
Lease liabilities	(10,689)
Net identifiable assets	44,573
Bargain purchase	(3,681)
Total consideration	40,892
Equity instruments (24.8 million ordinary shares)	40,892
Contingent consideration arrangement	—
Total consideration	40,892

The Group acquired net cash of £10.1 million with the acquisition of OncoMed, being the value of the cash and short-term deposits on April 23, 2019.

The fair value of the 24.8 million ordinary shares issued as the consideration paid for OncoMed was measured based on the Group's quoted share price on April 23, 2019.

As the Group acquired OncoMed for an amount less than the fair market value of the net assets acquired, a gain on bargain purchase of £3.7 million was realized. The was attributable to the following factors:

- Subject to working capital adjustments, the immediately pre-closing proportion of shares in the Company due to be issued to OncoMed's shareholders was agreed in December 2018, based on the Group's 90-day volume-weighted average share price ending on December 4, 2018. Following a movement downward in the Group's quoted share price on the completion date in comparison with the reference share price, this reduced the overall fair value of the consideration paid. The impact in the reduction in the fair value of consideration paid was partly offset by;
- In the period from announcement of the deal and the date of acquisition (April 23, 2019), a period of approximately five months, OncoMed continued to generate losses, reflecting continue research and development activity, together with recurring expenditure on its overheads. This had the effect of reducing net assets acquired on the acquisition date compared with net assets at the time the acquisition was agreed.

Additional cash consideration, accounted for as contingent consideration, becomes payable under a Contingent Value Rights Agreement ("CVR") relating to OncoMed's etigilimab ("TIGIT") and navicixizumab ("Navi") products. The contingent consideration would become payable upon the achievement of certain milestones in the future specific to TIGIT ("the TIGIT milestone") and Navi ("the Navi milestone").

As at the date of acquisition the fair value of the contingent consideration was estimated to be close to £nil. In making that assessment, the following information and factors were considered:

1) The uncertain outcomes of current clinical studies;
2) The level of uncertainty regarding the availability of future funding partners;
3) The level of uncertainty relating to the success of future development of such products;
4) The dependency of the CVR milestones on the occurrence of events that are outside of the control of the Group; and

5) The likelihood of Celgene exercising the exclusive option granted by OncoMed to Celgene in relation to OncoMed's TIGIT product, particularly given Bristol-Myers Squibb's proposed acquisition of Celgene.

In June 2019 it was announced that Celgene had decided, in light of strategic product portfolio considerations, not to exercise its option to license TIGIT. Accordingly, the TIGIT milestone can no longer be achieved.

As at December 31, 2019, the Group estimates the fair value of the Navi milestone to be £0.4 million ($0.5 million) which is accounted for as a contingent consideration liability (see Note 25 and Note 30). The maximum undiscounted amount of the Navi milestone is subject to an aggregate cap of $80 million.

The fair value of the financial assets includes receivables from the landlord under OncoMed's office lease arrangement in relation to tenant improvements with a fair value and a gross contractual value of £0.2 million. It is estimated at acquisition date that all contractual cash flows are collectable in full. Short-term investments acquired with OncoMed were treasury bills (recognized at fair value through other comprehensive income), in line with the Group's accounting policy (see Note 25).

Acquisition related costs (presented net against the gain on bargain purchase in the consolidated statement of comprehensive loss) amounted to £2.6 million (rounded). Transaction costs incremental and directly attributable to the issuance of new share capital associated with the acquisition of OncoMed amounted to £0.8 million, which is accounted for within equity. The net gain on bargain purchase in the consolidated statement of comprehensive loss is therefore £1.0 million (rounded).

OncoMed contributed £nil revenue and £5.7 million to the Group's loss for the period between the date of acquisition and the balance sheet date. If the acquisition of OncoMed had been completed on the first day of the financial year, group revenues for the period would have been £3.3 million and the Group's loss would have been £42.9 million. This information is provided for illustrative purposes only and is not necessarily indicative of the results that the Group would have occurred had OncoMed been acquired at the beginning of the year, or indicative of future results of the Group.

6. Group information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal activities	Country of incorporation	% equity interest December 31, 2019	% equity interest December 31, 2018
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	100
OncoMed Pharmaceuticals, Inc.	Pharmaceutical R&D	U.S.	100	–
Navi Subsidiary, Inc.	Pharmaceutical R&D	U.S.	100	–
Mereo US Holdings Inc.	Holding company	U.S.	100	100
Mereo MergerCo One Inc.	Holding company	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. 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 business combination with OncoMed (see Note 5). Following the business combination with OncoMed, Mereo MergerCo One Inc. ceased to exist. The registered office of Mereo US

Holdings Inc. is 251 Little Falls Drive, City of Wilmington, County of New Castle, Delaware 19808, U.S. Mereo MergerCo One Inc. was a 100% owned subsidiary of Mereo US Holdings Inc.

OncoMed became a wholly owned subsidiary of Mereo US Holdings Inc. on April 23, 2019 and is therefore an indirect, wholly owned subsidiary of Mereo BioPharma Group plc. The registered office of OncoMed Pharmaceuticals, Inc. is 251 Little Falls Drive, City of Wilmington, Country of New Castle, Delaware 19808, U.S. Navi Subsidiary, Inc, incorporated on April 15, 2019, is a wholly owned subsidiary of OncoMed.

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

7. Loss before taxation

Loss before tax is stated after charging:

	Year ended December 31, 2018	2019
Fees payable to the Company's Auditor for the audit of Group accounts	323	514
Fees payable to the Company's Auditor for other services:		
Audit of subsidiary accounts	30	45
Audit-related assurance services	171	311
Accounting advisory services	10	–
Legal and professional fees including patent costs	936	2,413
Operating lease expense (IAS 17)	293	–
Depreciation of right-of-use assets (IFRS 16)	–	1,505
Depreciation (excluding right-of-use assets)	40	52

Following the adoption of IFRS 16 (Leases) on January 1, 2019, the Group has recognized £1.5 million of expense relating to depreciation of right-of-use assets and £1.3 million of interest expense relating to finance lease liabilities in the consolidated statement of comprehensive loss. No prior year comparative is disclosed, however under IAS 17 (Leases) the Group previously recognized £0.3 million relating to operating lease expense in the consolidated statement of comprehensive loss.

8. Employees

The average monthly number of persons employed by the Group (including Directors) during the year was:

	Year ended December 31, 2018	2019
By activity		
Administrative	24	28
Research and development	12	18
Total	36	46

Total compensation costs for persons employed by the Group (including Directors) during the year was:

	Year ended December 31,	
	2018	2019
Included in research and development expenses:		
Salaries	1,792	2,824
Social security costs	(30)	110
Pension contributions	73	62
Share-based payment expenses	526	152
Included in administrative expenses:		
Salaries	2,903	3,384
Social security costs	(828)	(124)
Pension contributions	99	114
Share-based payment expenses	1,663	1,485
Total employee benefit expenses	6,198	8,007

Total compensation costs for Directors during the year was:

	Year ended December 31,	
	2018	2019
Salaries and fees	1,047	1,106
Benefits in kind	15	17
Pension contributions	11	25
Bonus	512	294
Total	1,585	1,442

During 2019, two Directors were members of a defined contribution pension scheme (period ended December 31, 2018: two).

Further details concerning the remuneration of Key Management Personnel can be found in Note 28.

9. Other income/expenses and adjustments

9.1 Finance income

	Year ended December 31,		
	2017	2018	2019
Bank interest earned	827	307	42
Interest earned on short-term investments	–	–	141
Gain on short-term investments	–	–	194
Total finance income	827	307	377

9.2 Finance charge

	Year ended December 31,		
	2017	2018	2019
Interest payable on convertible loan	(103)	(185)	(20)
Interest on TAP funding	–	–	(10)
Interest payable on bank loan	(327)	(1,645)	(1,739)
Interest on lease liabilities	–	–	(1,314)
Accreted interest on bank loan	(67)	(782)	(1,523)
Transaction costs on bank loan	(200)	–	—
Modification (loss)/gain on bank loan	–	(730)*	456
Loss on short-term deposits	(339)	(22)	–
Discounting of provision for deferred cash consideration	–	(443)	(221)
Change in warrant fair value	(54)	716	875
Total finance charge	(1,090)	(3,091)	(3,496)

* We have reclassified the loan modification loss occurring in 2018 resulting in the reduction of administrative expenses by £0.7 million, and the increase in finance charges of an equivalent amount. Please refer to Note 2 for further details.

10. Income tax

	Year ended December 31,		
	2017	2018	2019
U.K. corporation tax R&D credit	8,152	5,277	5,149
Other tax income / (expense)	–	–	1,125
Income tax credit	8,152	5,277	6,274

U.K. 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 for the year ended December 31, 2018 which was received in early 2020 together with the estimated recoverable credit for the year ended December 31, 2019.

U.S. income tax

On December 22, 2017, the Tax Cuts and Jobs Act were entered into law. Following the acquisition of OncoMed during the year, the Group has analyzed the effects of the tax reform for the financial year ended December 31, 2019. The new tax law permanently repeals the corporate Alternative Minimum Tax ("AMT") and provides a transition period where existing AMT credits are refundable. Other tax income of £1.1 million reflects amounts received or receivable by the Group as AMT credits. As at December 31, 2019, £1.0 million is receivable, recognized as other taxes recoverable within the consolidated balance sheet. At December 31, 2019, the Group had an Uncertain Tax Position of £2.5 million being held off the Balance Sheet, in respect of the R&D tax credits in the US. The Uncertain Tax Position is calculated based upon historic US R&D claims and equates to around 20% of the outstanding US R&D claims.

Reconciliation of effective tax rate

	Year-ended December 31,		
	2017	2018	2019
Loss on ordinary activities before income tax	(46,951)	(37,306)	(41,118)
Loss on ordinary activities before tax at the U.K.'s statutory income tax rate of 19% (2018: 19%)	9,038	7,088	7,812
Expenses not deductible for income tax purposes (permanent differences)	(13)	(1,070)	(317)
Temporary timing differences	(712)	(277)	(343)
R&D relief uplift	3,447	2,271	2,540
Losses (unrecognized)	(3,785)	(2,804)	(4,380)
Deferred income from MBG loan guarantee costs	177	69	(54)
Differences in overseas tax rates	–	–	340
Gain on bargain purchase	–	–	699
Other	–	–	(23)
Tax credit for the year	8,152	5,277	6,274

Deferred tax

The analysis of unrecognized deferred tax is set out below:

	December 31,		
	2017	2018	2019
Losses	6,121	8,604	19,443
US tax credits	–	–	10,032
Accruals	–	–	947
Fixed assets	–	–	400
Other	–	6	202
Temporary differences trading	2,267	495	4
Net deferred tax asset (unrecognized)	8,388	9,105	31,028

The analysis of recognized deferred tax is set out below:

	At January 1, 2019	Acquisition of subsidiary (Note 5)	Recognized in income	At December 31, 2019
Deferred tax liabilities				
Intangible asset	–	(2,686)	–	(2,686)
Deferred tax asset				
Net operating losses	–	–	2,686	2,686
Net deferred tax asset / (liability)	–	(2,686)	2,686	–

The deferred tax liability has arisen from the recognition of separately identifiable intangible assets on the acquisition of OncoMed (see Note 5). A deferred tax asset on losses has been recognized up to the level of the deferred tax liability, resulting in a net deferred tax liability of £nil.

The remaining deferred tax assets, as set out in the table above, have not been recognized as there is uncertainty regarding when suitable future profits against which to offset the accumulated tax losses will arise.

U.K. deferred tax

A reduction in the rate of UK corporation tax to 19% from April 1, 2017 and to 17% from April 1, 2020 was substantively enacted at the Balance Sheet date. However subsequently, the UK Government announced that the UK corporation tax rate would remain at 19% and not reduce to 17% on 1 April 2020. This was

substantively enacted on 17 March 2020. The standard rate of UK corporation tax applied to reported loss is 19% (2018: 19%). Unrecognized UK deferred tax assets and liabilities are calculated at a rate of 17%, being the rate that was substantively enacted at the Balance Sheet date.

There is no expiration date for accumulated tax losses in the U.K. entities.

At December 31, 2019, the Group had U.K. tax losses to be carried forward of approximately £70.2 million (2018: £50.0 million).

U.S. deferred tax

In the U.S., the Tax Cuts and Jobs Act reduced the corporation tax rate to 21% from January 1, 2018. The effect of the new U.S. corporation tax rate has been considered in these financial statements. U.S. deferred tax assets and liabilities are calculated at a blended rate of approximately 21%.

For OncoMed, with respect to accumulated tax losses carried forward prior to the acquisition of the Company, there is a change of control restriction which will limit the amount available in any one year.

At December 31, 2019, the Group had U.S. federal tax losses to be carried forward of approximately £47.5 million, of which £40.9 million can be carried forward indefinitely and £6.6 million which will begin to expire in 2023. At December 31, 2019, the Group had U.S. state tax losses to be carried forward of approximately £3.2 million which begin to expire in 2028.

11. 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 the net amount attributable for the year to ordinary equity holders of the parent was a loss in the year (2018: loss), the dilutive potential shares are anti-dilutive for the earnings per share calculation.

	December 31,								
	2017			2018			2019		
	Loss £'000	Weighted shares number	Loss per share £	Loss £'000	Weighted shares number	Loss per share £	Loss £'000	Weighted shares number	Loss per share £
Basic and diluted	(38,799)	69,012,348	(0.56)	(32,029)	71,144,786	(0.45)	(34,844)	89,424,476	(0.39)

The Company operates share option schemes (see Note 26) which could potentially dilute basic earnings per share in the future. In addition, there exist within equity nil (2018: 864,988) shares to be issued which also have the potential to dilute basic earnings per share in the future (see Note 18).

As part of a license and option agreement with AstraZeneca (see Note 26) additional future payments of a maximum of 1,349,692 new ordinary shares would be payable on reaching certain clinical milestones.

Warrants totaling 321,444 were issued in 2019 (2018: 41,286) that could potentially dilute basic earnings per share if converted.

The equity-settled transactions were considered to be anti-dilutive as they would have decreased the loss per share and were therefore excluded from the calculation of diluted loss per share.

For transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements, see Note 30.

12. Property, plant and equipment

The Group has decided to present right-of-use assets within property, plant and equipment.

On initial application of IFRS 16 (Leases), the Group recognized a right-of-use asset of £2.6 million. Subsequently, following the acquisition of OncoMed, the Group recognized a right-of-use asset of £10.8 million relating to an acquired property lease.

Further details on the initial application of IFRS 16 (Leases) are presented in Note 4.

	Right-of-use asset (building)	Right-of-use asset (equipment)	Leasehold improve-ments	Office equipment	IT equipment	Total
Cost or valuation						
At January 1, 2019	–	–	164	31	71	266
Additions	–	–	–	–	21	21
Transition to IFRS 16 (Leases)	1,237	1,314	–	–	–	2,551
Acquisition of subsidiary (Note 5)	10,755	–	–	58	24	10,837
Disposals	–	–	–	(18)	–	(18)
Adjustment to carrying value	–	(290)	–	–	–	(290)
Currency translation effects	(115)	–	–	–	–	(115)
At December 31, 2019	**11,877**	**1,024**	**164**	**71**	**116**	**13,252**
Depreciation and impairment						
At January 1, 2019	–	–	(53)	(16)	(48)	(117)
Disposals	–	–	–	–	–	–
Depreciation for the year	(996)	(509)	(16)	(14)	(42)	(1,577)
At December 31, 2019	**(996)**	**(509)**	**(69)**	**(30)**	**(90)**	**(1,694)**
Net book value						
At January 1, 2019	–	–	111	15	23	149
At December 31, 2019	**10,881**	**515**	**95**	**41**	**26**	**11,558**

	Leasehold improvements	Office equipment	IT equipment	Total
Cost or valuation				
At January 1, 2018	155	30	48	233
Additions	9	1	25	35
Disposals	–	—	(2)	(2)
At December 31, 2018	**164**	**31**	**71**	**266**
Depreciation and impairment				
At January 1, 2018	(37)	(10)	(33)	(80)
Disposals	–	—	2	2
Depreciation for the year	(16)	(6)	(17)	(39)
At December 31, 2018	**(53)**	**(16)**	**(48)**	**(117)**
Net book value				
At January 1, 2018	118	20	15	153
At December 31, 2018	**111**	**15**	**23**	**149**

	Leasehold improvements	Office equipment	IT equipment	Total
Cost or valuation				
At January 1, 2017	155	20	43	218
Additions	–	10	5	15
Disposals	–	–	–	–
At December 31, 2017	**155**	**30**	**48**	**233**
Depreciation and impairment				
At January 1, 2017	**(21)**	**(5)**	**(18)**	**(44)**
Disposals	–	–	–	–
Depreciation for the year	(16)	(5)	(15)	(36)
At December 31, 2017	**(37)**	**(10)**	**(33)**	**(80)**
Net book value				
At January 1, 2017	134	15	25	174
At December 31, 2017	**118**	**20**	**15**	**153**

13. Intangible assets

	Acquired development programs
Cost at January 1, 2018	33,005
Cost at December 31, 2018	33,005
Acquisition of subsidiary (Note 5)	12,693
Currency translation effects	(171)
Cost at December 31, 2019	**45,527**
Revision to estimated value at January 1, 2018	–
Revisions to estimated value	(373)
Revision to estimated value at December 31, 2018	(373)
Revision to estimated value	(698)
Revision to estimated value at December 31, 2019	**(1,071)**
Net book value at January 1, 2018	33,005
Net book value at December 31, 2018	32,632
Net book value at December 31, 2019	**44,456**

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

On April 23, 2019, the Group acquired an intangible asset of £12.7 million following the acquisition of OncoMed (Note 5).

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"). On that date the fair value of MPH-966 was measured at £7.2 million which consisted of upfront cash and equity payments as well as deferred cash and equity consideration. The provision for deferred cash consideration, in line with the Group's accounting policy, is re-measured to fair value at each balance sheet date and recognized in the intangible asset. During the year, the provision for deferred cash consideration has decreased by £0.7 million (2018: £0.4 million) due to changes in timelines and the probability of contractual milestones being achieved.

	Acquired development programs
Cost at January 1, 2017	25,813
Cost at December 31, 2017	33,005
Cost at December 31, 2018	**33,005**
Revision to estimated value at January 1, 2017	–
Revisions to estimated value	–
Revision to estimated value at December 31, 2017	–
Revision to estimated value	(373)
Revision to estimated value at December 31, 2018	**(373)**
Net book value at January 1, 2017	25,813
Net book value at December 31, 2017	33,005
Net book value at December 31, 2018	**32,632**

14. 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, 2019					
	Navicixizumab (navi)	BPS-804 (setrusumab)	MPH-966 (alvelestat)	BGS-649 (leflutrozole)	BCT-197 (acumapimod)	Total
Acquired development programs	12,522	11,616	6,121	9,886	4,311	**44,456**

	As at December 31, 2018				
	BPS-804 (setrusumab)	MPH-966 (alvelestat)	BGS-649 (leflutrozole)	BCT-197 (acumapimod)	Total
Acquired development programs	11,616	6,819	9,886	4,311	**32,632**

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, 2019. Management 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. Management 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 management's and clinical development partners' prior experience;
- 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% (2018: 15.3%).

Where an out-licensing agreement has been reached with a third party, known and observable inputs replace management assumptions if available.

At this stage of product development, the key sensitivity for all 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.

15. Other receivables

	December 31, 2018	2019
Rent deposit	293	293
VAT recoverable	316	269
Other receivables	–	10
	609	572

16. Cash and short-term deposits

	December 31, 2018	2019
Cash at banks and on hand	5,344	15,803
Short-term deposits	19,698	544
	25,042	16,347

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.

17. Short-term investments

	December 31, 2018	2019
Short-term investments	2,500	–

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.

18. Issued capital and reserves

Ordinary share capital	2017
Balance at beginning of year	193
Issuances in the year	20
Nominal share capital as at December 31	213
Ordinary shares issued and fully paid	
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

Ordinary share capital	2018
Balance at beginning of year	213
Issuances in the year	1
Nominal share capital as at December 31	214
Ordinary shares 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 share capital	2019
Balance at beginning of year	214
Issuances in the year	80
Nominal share capital as at December 31	294
Ordinary shares issued and fully paid	
At January 1, 2019	71,240,272
Issued on April 23, 2019 for OncoMed acquisition	24,783,320
Issued on June 21, 2019 for conversion of loan note	1,936,030
At December 31, 2019	97,959,622
Nominal value at December 31, 2019 (£)	0.003
Issued capital at December 31, 2019 (£)	293,879

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;
- 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;
- On April 23, 2019, the Company issued and allotted 24,783,320 ordinary shares of £0.003 in nominal value in the capital of the Company as consideration for the acquisition of OncoMed. The fair value of the ordinary shares, measured on the date of acquisition, was £1.65; and
- On June 21, 2019, Novartis converted £2.4 million of loan notes dated June 3, 2016 into 1,071,042 ordinary shares of £0.003 in nominal value in the capital of the Company at a fixed conversion price of £2.21 per share. Under the terms of the notes, Novartis also received 864,988 bonus shares.

Share premium	December 31, 2017
At January 1, 2017	99,975
Issued on April 3, 2017 for private placement financing round	14,985
Issued on April 26, 2017 for conversion of loan note	2,478
Issued on October 28, 2017 for acquisition of license	1,519
Transaction costs for issued share capital	(730)
At December 31, 2017	118,227

Share premium	December 31, 2018
At January 1, 2018	118,227
Issued on June 1, 2018 for public offering	150
Issued on August 3, 2018 for exercise of share options	13
Issued on October 22, 2018 for exercise of share options	110
Transaction costs for issued share capital	(8)
At December 31, 2018	118,492

Share premium	December 31, 2019
At January 1, 2019	118,492
Issued on June 21, 2019 for conversion of loan note	3,953
Transaction costs for issued share capital	(761)
At December 31, 2019	121,684

Other capital reserves

	Shares to be issued	Share-based payments	Equity component of convertible loan	Total
At January 1, 2017	2,673	9,476	517	12,666
Share-based payments expense during the year	–	4,983	—	4,983
Shares issued	(1,083)	–	–	(1,083)
Equity component of convertible loan instrument	—	—	(207)	(207)
At December 31, 2017	1,590	14,459	310	16,359

	Shares to be issued	Share-based payments	Equity component of convertible loan	Warrants issued for TAP funding	Total
At January 1, 2018	1,590	14,459	310	–	16,359
Share-based payments expense during the year	–	2,302	—	–	2,302
Share-based payments release for exercise of options	–	(112)	–	–	(112)
Warrants issued for TAP funding	–	–	–	44	44
At December 31, 2018	1,590	16,649	310	44	18,593

	Shares to be issued	Share-based payments	Equity component of convertible loan	Warrants issued for TAP funding	Merger reserve	Total
At January 1, 2019	1,590	16,649	310	44	–	18,593
Acquisition of OncoMed (Note 5)	–	–	–	–	40,818	40,818
Shares issued during the year	(1,590)	—	–	–	–	(1,590)
Convertible loan conversion	–	—	(310)	–	–	(310)
Share-based payments expense during the year	–	1,636	—	–	–	1,636
Share-based payments release for exercise of options	–	–	–	–	–	–
At December 31, 2019	**–**	**18,285**	**–**	**44**	**40,818**	**59,147**

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.

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 26 for further details.

Shares issued or to be issued

At January 1, 2019, a maximum of 864,988 shares were remaining to be issued to Novartis pro rata to their percentage shareholding as and when the Company issued further ordinary shares. The fair value of these shares was £1.84 per share.

On June 21, 2019, the remaining 864,988 shares were issued to Novartis as fully paid up bonus shares for £nil consideration.

Equity component of convertible loan instrument

The convertible loan notes issued to Novartis were a compound instrument consisting of a liability and an equity component.

On June 21, 2019, Novartis exercised the right to convert the instrument therefore the value of the equity component as at December 31, 2019 is £nil.

Merger reserve

The consideration paid to acquire OncoMed was 24,783,320 ordinary shares with an acquisition date fair value of £40.9 million, based on the Group's quoted share price. The nominal value of the issued capital was £0.1 million with the excess, £40.8 million, classified within other capital reserves as a 'Merger reserve'.

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, 2019 is £44,156 (2018: £44,156).

Accumulated loss

	Year ended December 31,		
	2017	2018	2019
Other reserves	7,000	7,000	7,000
Accumulated losses	(79,316)	(111,221)	(146,065)
Accumulated deficit	(72,316)	(104,221)	(139,065)

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 £7.0 million and crediting a new other reserve by the same amount.

19. Interest-bearing loans and borrowings

	Year ended December 31,	
	2018	2019
Convertible loan notes ("Novartis Notes")	2,039	–
Bank loan	19,446	20,512
At December 31	21,485	20,512
Current	6,838	15,139
Non-current	14,647	5,373

19.1 Convertible loan notes ("Novartis Notes")

On June 21, 2019, Novartis converted the remaining balance of principal and interest of £2.4 million of convertible loan notes into 1,071,042 ordinary shares at a fixed conversion price of £2.21 per share.

This has been recorded as a reduction in interest bearing loans and borrowings of £2.0 million and a reduction in other capital reserves of £0.3 million. Under the terms of the arrangement, Novartis also received 864,988 bonus shares (for £nil consideration).

There are no convertible loan notes outstanding as at December 31, 2019.

As at December 31, 2018, the carrying value of the convertible loan notes was £2.0 million. The value of the debt component of the convertible loan notes on the date of issuance of the instrument was £2.9 million. Cash flows attached to the convertible loan note up to the date of maturity were calculated and discounted at an appropriate venture debt rate of 10%. The value of the equity component of the instrument as at December 31, 2018 was £0.3 million.

19.2 Bank loan

The bank loan has a principal amount of £20.5 million and will mature on March 1, 2021, unless extended on reaching certain milestones. The terms of the bank loan required interest-only payments up until April 30, 2019, and thereafter payments of interest and principle in 23 equal monthly instalments through maturity. The bank loan bears interest at an annual fixed rate of 8.5% and is secured by substantially all of the Group's assets, including intellectual property rights owned or controlled by the Group.

On April 23, 2019, the Group agreed an amendment to the terms of its bank loan with its lenders. The new terms extended the interest-only period through to December 31, 2019 followed by a 15-month capital and interest repayment period. The Group has undertaken an assessment believes that the change in terms should not be accounted for as a modification, but instead as a change in expected cash flows. The cash flows under the bank loan were revised from May 1, 2019.

Management estimated the revised carrying value of the loan on May 1, 2019 to be £19.9 million by discounting the revised cash flows at the original discount rate of 18%. The difference between the previous and revised carrying value of the loan on May 1, 2019 was £0.5 million. The gain as a result of the changes in estimated cash flows is recognized as a true-up in total finance cost (i.e. together with interest expense). Following the re-estimation, the financial liability continues to be accounted for at amortized cost using the original effective interest rate.

On May 3, 2019, under the terms of the loan agreement, the Company issued 321,444 additional warrants (Note 21) to its lenders giving them the right to subscribe for ordinary shares at an exercise price of £2.95. The fair value of the additional warrants on their grant date was £0.1 million.

A total of £1.5 million (2018: £0.8 million) of non-cash interest has been charged to the consolidated statement of comprehensive loss in the year.

The fair value of the bank loan is not materially different from the carrying amount, since the interest payable on the borrowings is reflective of market rates following the most recent amendment to the bank loan on May 1, 2019. In the prior year, the bank loan was modified and a modification loss of £0.7 million was recognized on the consolidated statement of comprehensive loss on the date of modification. This balance has been reclassified from administrative expenses to finance charges within the statement of comprehensive loss.

20. Provisions

	Year ended December 31,	
	2018	2019
Social security contributions on share options	842	104
Provision for deferred cash consideration	2,131	1,654
At December 31	2,973	1,758
Current	332	309
Non-current	2,641	1,449

Social security contributions on share options	Year ended December 31, 2017	2018	2019
At beginning of year	1,172	2,288	842
Arising during the year	1,116	–	–
Released	–	(1,446)	(738)
At December 31	2,288	842	104
Current	–	–	–
Non-current	2,288	842	104

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 taxable gain arising on exercise of the share options, using the best estimate of the market price at the balance sheet date.

Management assume the options will be held for their full contractual life of ten years (see Note 26) therefore the provision has been classified as non-current. The provision has been discounted.

The negative charge in 2019 is due to the fall in the Company's share price between December 31, 2018 and December 31, 2019.

Provisions for deferred cash consideration	Year ended December 31, 2017	2018	2019
At beginning of year	–	2,061	2,131
Arising during the year	2,061	–	—
Increase in provision due to the unwinding of the time value of money	—	443	221
Decrease in provision due to a change in estimates relating to timelines and probabilities of contractual milestones being achieved (see Note 12)	—	(373)	(698)
At December 31	2,061	2,131	1,654
Current	274	332	309
Non-current	1,787	1,799	1,345

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 13).

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.

21. Warrant liability

	Year ended December 31, 2017	2018	2019
At beginning of year	–	1,346	1,006
Issued during the year	1,292	376	131
Movement during the year	54	(716)	(1,006)
At December 31	1,346	1,006	131

At December 31, 2018, as part of the bank loan facility, the Company had issued 922,464 warrants (Note 19) to its lenders giving them the right to subscribe for ordinary shares at a range of exercise price between £2.31 and £3.30.

On May 3, 2019, the Company issued a further 321,444 warrants to its lenders giving them the right to subscribe for ordinary shares at an exercise price of £2.95. The fair value of the additional warrants on their grant date was £0.1 million.

At December 31, 2019, a total of 1,243,908 warrants are outstanding which are held by lenders of the bank loan facility. The warrants outstanding are equivalent to 1.27% of the ordinary share capital of the Company. The movement during the year ended December 31, 2019 of £1.0 million was mostly due to the decrease in the market price of ordinary shares (refer to table below).

The warrant instrument is classified as a financial liability as the terms of the instrument allow for a cashless exercise. At each balance sheet date, the fair value of the warrants will be assessed using the Black Scholes model considering 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	2019
Expected volatility (%)	65	67
Risk-free interest rate (%)	1.56	1.26
Expected life of share options (years)	10	10.0
Market price of ordinary shares (£)	2.31	0.83
Model used	Black Scholes	Black Scholes

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.

22. Other liability

	Year ended December 31,	
	2018	2019
At beginning of year	–	34
Interest accretion	–	10
Arising during the year	34	–
At December 31	34	44

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 18). 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.

23. Trade and other payables

	Year ended December 31, 2018	2019
Trade payables	4,393	6,148
Social security and other taxes	161	183
Other payables	16	21
At December 31	4,570	6,352

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.

24. Changes in liabilities arising from financing activities

	Contingent consideration	Lease liability	Bank loan	Novartis Notes	Warrant liability	Deferred cash consideration	TAP agreement	Total
Carrying value at January 1, 2018	–	–	18,775	1,977	1,346	2,061	–	24,159
Financing cash flows	–	–	(2,111)	–	–	–	34	(2,077)
Changes in fair values	–	–	(375)	–	(716)	70	–	(1,021)
Interest expense	–	–	2,427	185	–	–	–	2,612
Loss on modification	–	–	730	–	–	–	–	730
Other	–	–	–	(124)	375	–	–	251
Carrying value December 31, 2018	–	–	19,446	2,038	1,005	2,131	34	24,654
Adoption of IFRS 16 (Leases)	–	2,534	–	–	–	–	–	2,534
Financing cash flows	–	(2,212)	(1,739)	–	–	–	–	(3,951)
Changes in foreign exchange	–	(131)	–	–	–	–	–	(131)
Changes in fair values	354	–	–	–	(874)	(477)	10	(987)
Interest expense	–	1,314	3,262	20	–	–	–	4,596
Gain on modification	—	–	(457)	–	–	–	–	(457)
Issuance of equity	–	–	–	(2,058)	–	–	–	(2,058)
Acquisition of subsidiary (Note 5)	–	10,689	–	–	–	–	–	10,689
Lease term reassessment	–	(290)	–	–	–	–	–	(290)
Carrying value at December 31, 2019	**354**	**11,904**	**20,512**	**–**	**131**	**1,654**	**44**	**34,599**

25. Financial and capital risk management and fair value measurement

25.1 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 18. The Group's loans are disclosed in Note 19. 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 28).

25.2 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.

Except for the bank loan, 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, 2019.

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 the bank loan is fixed. Consequently, there is no material exposure to interest rate risk in respect of interest payable.

Foreign currency risk

The Group currently has no revenue. The majority of operating costs are denominated in pound sterling, Euros and U.S. Dollars. Funding to date has been secured in a mixture of pound sterling and U.S. Dollars 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, 2019 is the carrying amounts. The Group does not face a significant liquidity risk with regards to its lease liabilities.

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 "Going concern" regarding the Directors' assessment of liquidity for further information.

25.3 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 20)	December 31, 2019	1,654	–	–	1,654
Provision for contingent consideration (Note 5)	December 31, 2019	354	–	–	354
Warrant liability (Note 21)	December 31, 2019	131	–	131	–
Liabilities for which fair values are disclosed					
Bank loan (Note 19)	December 31, 2019	20,512	–	20,512	–

There were no transfers between Level 1 and Level 2 during 2019.

Fair value measurement hierarchy for liabilities as at December 31, 2018:

			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 20)	December 31, 2018	2,061	–	–	2,061
Warrant liability (Note 21)	December 31, 2018	1,346	–	1,346	–
Liabilities for which fair values are disclosed					
Convertible loan (Note 19)	December 31, 2018	1,977	–	1,977	–
Bank loan (Note 19)	December 31, 2018	18,775	–	18,775	–

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

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 table presents the changes in level 3 items for the periods ended December 31, 2019 and December 31, 2018:

	Provision for deferred cash consideration	Provision for contingent consideration
January 1, 2018	2,061	–
Unwinding of the time value of money recognised as a finance charge	443	–
Change in estimate relating to probabilities (revision to intangible asset, see Note 13)	(373)	–
December 31, 2018	**2,131**	**–**
January 1, 2019	2,131	–
Unwinding of the time value of money (recognized as a finance charge)	221	–
Change in estimate relating to probabilities (revision to intangible asset, see Note 13)	(698)	–
Change in estimate relating to probabilities (recognized as an administrative expense)	–	354
December 31, 2019	**1,654**	**354**

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

- The warrant liability is estimated using a 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 at each reporting date.
- 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.
- At December 31, 2019, the Group estimates the fair value of the contingent consideration liability to be £0.4 million, which is an increase from £nil on the date of acquisition. Total potential payments under the CVR arrangement on a gross, undiscounted basis are approximately $80.0 million (see Note 13). The increase in the fair value of the contingent consideration liability reflects the terms subsequently agreed with Oncologie, Inc. (“Oncologie) with respect to the global licensing agreement of navicixizumab (“Navi”) (see Note 30). The estimated contingent consideration payable is based on a risk-adjusted, probability-based scenario. Under this approach the likelihood of future payments being made to the former shareholder of OncoMed under the CVR arrangement is considered. The estimate could materially change over time as the development plan and subsequent commercialization of the Navi product progresses.

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, 2019 and 2018 are as shown below:

	Valuation technique	Significant unobservable inputs	Input range (weighted average)	Sensitivity of the input to fair value
Provision for deferred cash consideration	DCF	WACC	2019: 15.3%	1% increase would result in a decrease in fair value by £38,000.
		WACC	2018: 15.3%	1% decrease would result in an increase in fair value by £18,000.
		Probability of success	2019: 15.8–95%	10% increase would result in an increase in fair value by £0.4 million.
		Probability of success	2018: 28%–95%	10% decrease would result in a decrease fair value by £0.9 million.
Contingent consideration liability	DCF	Ongoing uncertainty in the clinical development of the Navi Product. Regulatory approval and commercialisation risks.	Not applicable	Total potential payments future payments relating to the contingent consideration liability on a gross, undiscounted basis are approximately $80.0 million (see Note 30). Sensitivity of the input to fair value is primarily driven by uncertainty in the clinical development of the Navi product. As at December 31, 2019, we are completing a Phase 1b clinical trial. Future potential payments under the CVR arrangement are contingent on i) future development milestones and ii) future sales of the Navi product, following regulatory approval and commercialisation.

25.4 Financial assets at fair value through other comprehensive income

During the year, the Group acquired £29.0 million of short-term debt investments following the acquisition of OncoMed (Note 5). The short-term debt investments acquired were in U.S. Treasury Bills ("T-Bill") securities.

All the short-term debt investments have reached maturity and been sold during the year, therefore the carrying value as at December 31, 2019 is £nil. On maturity, the related balance held within other comprehensive income has been reclassified to finance income within the consolidated statement of comprehensive loss.

25.5 Liquidity risk

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments at December 31, 2019:

	Payments due by period				
	Up to 1 year	1–3 years	3–5 years	Over 5 years	Total
Bank loan (Note 19)	17,185	5,484	–	–	22,669
Leases (Note 4)	2,634	4,643	4,913	8,105	20,295
Trade and other payables (Note 23)	6,352	–	–	–	6,352
Contingent consideration liability (Note 5)	354	–	–	–	354
	26,525	10,127	4,913	8,105	49,670

Further details regarding the contingent consideration liability following the acquisition of OncoMed are provided in Note 5.

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
Convertible loan (Note 19)	83	2,162	–	–	2,245
Bank loan (Note 19)	8,260	15,589	–	–	23,849
Leases (Note 27)	332	204	–	–	536
Trade and other payables (Note 23)	4,570	–	–	–	4,570
	13,245	17,955	–	–	31,200

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.

25.6 Market risk

The functional currency of the Company and all subsidiaries is pound sterling except for OncoMed whose functional currency is US dollars. The Group incurs expenditures in foreign currencies and is exposed to the risks of foreign exchange rate movements, with the impact recognized in the consolidated statement of comprehensive loss. The Group seeks to minimize this exposure by passively maintain foreign currency cash balances at levels appropriate to meet foreseeable foreign currency expenditures.

The table below shows analysis of the pound sterling equivalent of period-end cash and cash equivalent balances by currency:

	Year ended December 31, 2019	2018
Cash at bank and in hand:		
Pound sterling	2,525	23,189
US dollars	13,807	1,809
Swiss francs	11	–
Euro	4	44
	16,347	25,042

The table below shows those transactional exposures that give rise to net currency gains and losses recognized in the consolidated income statement. Such exposures comprise the net monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the relevant Group entity. As at year end, these exposures were as follows:

	Year ended December 31, 2019	2018
Net foreign currency assets/(liabilities):		
US dollars	(219)	(542)
Swiss francs	(6)	–
Euro	(812)	(1,430)
	(1,037)	(1,972)

The most significant currencies in which the Group transacts, other than pound sterling, are the US dollar and the Euro. The Group also trades in other currencies in small amounts as necessary.

The following table details the Group's sensitivity to a 10% change in the period-end rate, which the Group feels is the maximum likely change in rate based upon recent currency movements, in the US dollar and the Euro against pound sterling:

Year ended December 31, 2019	US dollar	Euro
Net foreign currency assets/(liabilities):		
Loss before tax	20	74
Equity	20	74

Year ended December 31, 2018	US dollar	Euro
Net foreign currency assets/(liabilities):		
Loss before tax	49	130
Equity	49	130

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the period.

26. Share-based payments

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

	Year ended December 31,		
	2017	2018	2019
2019 Equity Incentive Plan	–	–	635
2019 NED Equity Incentive Plan	–	–	160
2015 Plan	2,442	806	63
Mereo BioPharma Group plc Share Option Plan	586	1,064	685
Long Term Incentive Plan	299	320	93
Deferred Bonus Share Plan	325	–	–
	3,652	**2,190**	**1,636**

26.1 2019 Equity Incentive Plan ("EIP")

Our Board adopted the 2019 EIP on April 4, 2019. The 2019 EIP provides for the grant of market value options over ADR's (each ADR represented by 5 ordinary shares) to executive directors and employees.

During the year, market value options were granted to executive directors and employees. Subject to the executive director or employees continued employment, one fourth of each such market value option grant shall vest on the first anniversary of the grant date and the remainder shall vest in equal monthly instalments over the three-year period following the first anniversary. No performance conditions apply to such market value options.

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. The contractual term of the share options is 10 years.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, options for the 2019 EIP during the year:

	2019	
	Options over ADR Number	WAEP $
Outstanding at beginning of the year	–	–
Granted during the year	801,200	4.29
Cancelled during the year	3,150	5.40
Forfeited during the year	–	–
Exercised during the year	–	–
Outstanding at December 31	798,050	4.29
Exercisable at December 31	–	–

The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 9.5 years.

The weighted average fair value of options granted during the year was £0.49 (2018: £nil).

Options outstanding at the end of the year had an exercise price of between $2.60 and $5.40.

26.2 2019 Non-Executive Director Equity Incentive Plan ("NED EIP")

Our Board adopted the 2019 NED EIP on April 4, 2019. The 2019 NED EIP provides for the grant of market value options over ADR's to non-executive directors.

Subject to the participant holding the participant's current office (or being otherwise employed) through each applicable vesting date, such awards shall vest in equal monthly instalments over a one-year period following the grant date. No performance conditions apply to such market value options.

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. The contractual term of the share options is 10 years.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, options for the 2019 NED EIP during the year:

	2019	
	Options over ADR's Number	WAEP $
Outstanding at beginning of the year	–	–
Granted during the year	77,000	4.20
Cancelled during the year	–	–
Forfeited during the year	–	–
Exercised during the year	–	–
Outstanding at December 31	77,000	4.20
Exercisable at December 31	38,472	4.40

The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 9.5 years.

The weighted average fair value of options granted during the year was £0.49 (2018: £nil).

Options outstanding at the end of the year had an exercise price of between $3.00 and $5.40.

26.3 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. No further share option grants are envisaged under the 2015 Plan.

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:

	2017		2018		2019	
	Number	WAEP £	Number	WAEP £	Number	WAEP £
Outstanding at beginning of the year	9,198,655	1.32	9,124,610	1.32	8,983,133	1.32
Granted during the year	–	–	–	–	–	–
Cancelled during the year	–	–	–	–	–	–
Forfeited during the year	(74,045)	1.29	(46,255)	1.29	(59,533)	1.29
Exercised during the year	–	–	(95,222)	1.29	–	–
Outstanding at December 31	9,124,610	1.32	8,983,133	1.32	8,923,600	1.32
Exercisable at December 31	5,655,676	1.31	8,007,029	1.31	8,901,478	1.32

The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 5.6 years (2018: 6.6 years).

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

26.4 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. Following the introduction of the EIP and NED EIP, no further share option grants under the Share Option Plan are envisaged.

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:

	2017		2018		2019	
	Number	WAEP £	Number	WAEP £	Number	WAEP £
Outstanding at beginning of the year	–	–	1,578,188	3.05	1,881,555	3.10
Granted during the year	1,593,188	3.05	388,000	3.14	–	–
Cancelled during the year	–	–	–	–	–	–
Forfeited during the year	(15,000)	3.03	(84,633)	3.03	(357,490)	3.21
Outstanding at December 31	1,578,188	3.05	1,881,555	3.10	1,524,065	3.07
Exercisable at December 31	–	–	–	–	40,141	3.03

The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 7.6 years (2018: 8.6 years).

The weighted average fair value of options granted during the year was £nil (2018: £2.29).

Options outstanding at the end of the year had an exercise price of between £2.76 and £3.25.

26.5 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 non-marked based performance measures (strategic targets).

With respect to the LTIP Strategic Element, during the year the non-market based performance measures were reassessed. Based on that reassessment, an adjustment with respect to the cumulative compensation expense recognized in equity has been recorded which resulted in a credit of £0.1 million recorded in the consolidated statement of comprehensive loss.

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, 2019 was £0.1 million (2018: £0.3 million).

	2017 Number	2018 Number	2019 Number
Granted during the year	185,950	—	–
Cancelled during the year	–	–	–
Lapsed during the year	–	–	(241,374)
Outstanding at December 31	1,151,446	1,151,446	910,072
Exercisable at December 31	–	–	–

During the year 241,373 options under the LTIP Share Price Element lapsed as the performance conditions for a tranche were not met.

The weighted average remaining contractual life for the LTIP options outstanding as at December 31, 2019 was 0.9 years (2018: 1.8 years).

The weighted average fair value of LTIP options granted during the year to December 31, 2019 was £nil (2018: £nil).

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, 2017, 2018 and 2019.

LTIP Share Price Element

	Year ended December 31,		
	2017	2018	2019
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,		
	2017	2018	2019
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.

26.6 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).

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:

	2017 Number	2018 Number	2019 Number
Outstanding at January 1	62,180	163,000	163,000
Awarded during the year	100,820	—	–
Granted during the year	–	–	–
Outstanding at December 31	163,000	163,000	163,000
Exercisable at December 31	–	–	–

The weighted average remaining contractual life for the DBSP options outstanding as at December 31, 2019 was 1.6 years (2018: 2.6 years).

The weighted average fair value of DBSP options granted during the year was £nil (2018: £nil).

From January 1, 2018, under the new Deferred Bonus Plan ("2019 DBP"), 100% of the annual bonus is paid in cash, of which 30% of amounts granted to Executive Directors (after deduction of income tax and the relevant employee's national insurance contributions) is required to be utilized to acquire shares in the Company in the open market within 12 months of the grant of the award. No further grants under the DBSP are envisaged.

26.7 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 on grant date, being £3.10, giving a total of £1.3 million.

26.8 Weighted average inputs

The following tables list the weighted average inputs to the models used for the fair value of share options granted during the year ended December 31, 2019:

	EIP 2019 grants	NED EIP 2019 grants
Expected volatility (%)	66	66
Risk-free interest rate (%)	0.95	0.97
Expected life of share options (years)	10	10
Market price of ordinary shares (£)	0.66	0.63
Model used	Black Scholes	Black Scholes

During the year ended December 31, 2019, grants were issued under the EIP 2019 and NED EIP 2019 plans.

The following tables list the weighted average inputs to the models used for the fair value of share options granted during the year ended December 31, 2018:

	Share option plan grants
Expected volatility (%)	65-67
Risk-free interest rate (%)	1.39-1.53
Expected life of share options (years)	10
Market price of ordinary shares (£)	2.76-3.25
Model used	Black Scholes

During the year ended December 31, 2018, grants were issued under the share option plan. Grants issued in previous years under the LTIP Strategic element are subject to fair value movements at each reporting date.

27. Commitments and contingencies

27.1 Group as a lessee

Following the adoption of IFRS 16 (Leases), information relating to the Group as a lessee can be found in Note 4 (Changes in accounting policies), Note 12 (Property, Plant and Equipment) and Note 25 (Financial and capital risk management).

27.2 Operating lease arrangements

Operating leases, in which the Group is the sublessor, relate to a portion of an office leased by the Group, with lease terms of between one to two years. One of the subleases has an automatic extension on a month-to-month basis following the initial lease term, with rental increasing at a set percentage on each annual anniversary of the agreement. The lessee does not have an option to purchase the property at the expiry of the lease period.

The unguaranteed residual values do not represent a significant risk for the Group, as the lease terms are for a remaining period of 12 months or less, and the Group expects to be able to enter into new leases at market value at the end of the sublease term.

The maturity analysis of payments receivable by the Group in its capacity as sublessor is disclosed below:

	December 31, 2019	2018
Within one year	552	–
After one year but not more than five years	–	–
More than five years	–	–
	552	–

The Group does not have any leasing arrangements classified as finance leases at December 31, 2019 (2018: £nil).

27.3 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.

28. Related party disclosures

28.1 Compensation of key management personnel of the Group

The remuneration of key management personnel of the Group is set out below in aggregate:

	Year ended December 31,		
	2017	2018	2019
Short-term benefits	2,757	3,176	3,488
Post-employment benefits	87	60	64
IFRS 2 share-based payment charge	2,726	1,470	1,152
Total compensation paid to key management personnel	5,570	4,706	4,704

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. Key management personnel of the Group consist of executive directors (the Chief Executive Officer and Chief Financial Officer), non-executive directors and other members of management (the General Counsel, the Chief Medical Officer, the Head of Corporate Development, the Head of Patient Access and Commercial Planning and the US Site Head (SVP Regulatory Affairs)).

28.2 Employee Benefit Trust

In 2016 the Company set up an Employee Benefit Trust ("EBT") for the purposes of buying and selling shares on the employees' behalf.

A total of £1.0 million of funding was paid into the EBT by the Company during the year ended December 31, 2019 (2018: £0.3 million). A total of 1,074,274 shares were purchased by the EBT during the year ended December 31, 2019 (2018: 163,000).

As at December 31, 2019 a cash balance of £21,762 (2018: £21,762) was held by the EBT.

28.3 Novartis Notes

On June 6, 2019, Novartis delivered to the Company a notice of conversion with respect to the aggregate principal amount and interest of the Novartis Notes. Pursuant to such notice, on June 21, 2019, £2.4 million aggregate principal amount of Novartis Notes was converted into 1,071,042 fully paid ordinary shares at a fixed conversion price of £2.21 per ordinary share (see Note 18). Additionally, in connection with such conversion, the Company issued 864,966 bonus shares to Novartis.

On February 10, 2020, the Company entered into a £3.8 million convertible equity financing with Novartis Pharma (AG) ("Novartis"). Under the terms of the convertible equity financing, Novartis will purchase $5 million in a convertible loan note (see Note 30).

29. Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

30. Events after the reporting period

30.1 Global licensing agreement

On January 13, 2020, the Company and Oncologie, Inc. ("Oncologie") announced a global licensing agreement for the development and commercialization of navicixizumab ("Navi").

Under the terms of the global licensing agreement, Oncologie will receive an exclusive worldwide license to develop and commercialize Navi. The Company received an upfront payment of $4 million on January 17, 2020. The Company is also eligible for an additional payment of $2 million conditional on a Chemistry, Manufacturing and Controls ("CMC") milestone. Oncologie will be responsible for all future research, development and commercialization of Navi. Additionally, the Company will be eligible to receive up to $300 million in future clinical, regulatory and commercial milestones, tiered royalties ranging from the mid-single digit to sub-teen percentages on global annual net sales of Navi, as well as a negotiated percentage of sublicensing revenues from certain sublicenses.

As a consequence of the global licensing agreement with Oncologie, and in accordance with the terms and conditions of the Contingent Value Rights Agreement for former stockholders of OncoMed, dated April 23, 2019, by and among the Company and Computershare Inc., as rights agent, (the "Mereo CVR Agreement"), holders of contingent value rights ("CVRs") pursuant to the Mereo CVR Agreement will be entitled to receive certain eligible cash milestone payments made to the Company under the global licensing agreement relating to Navi.

Those eligible cash milestone payments are equal to 70% of the aggregate principal amount received by the Company after deduction of costs, charged and expenditures within a period of five years following completion of the OncoMed acquisition on April 23, 2019. Such eligible milestone payments are subject to a cash consideration cap of approximately $79.7 million.

As at December 31, 2019, the Company was reasonably certain payment of approximately $0.5 million (£0.4 million) would be made under the Mereo CVR Agreement. The full amount is recorded as a contingent consideration payable on the consolidated balance sheet as at December 31, 2019 and was subsequently paid out in the Q1 2020.

30.2 Novartis convertible equity financing

On February 10, 2020, the Company entered into a £3.8 million convertible equity financing with Novartis Pharma (AG) ("Novartis"). Under the terms of the convertible equity financing, Novartis will purchase £3.8 million in a convertible loan note ("Loan Note").

The Loan Note is convertible at any time at the option of the holder, at a fixed price of £0.265 per ordinary share. The maturity of the Loan Note is three years from issuance, and it bears an interest rate of 6% per annum.

In connection with the Loan Note issuance, the Company also issued a warrant instrument to Novartis to purchase up to 1,449,614 of the Company's ordinary shares, which are exercisable at an exercise price of £0.265 per ordinary share at any time before the close of business on February 10, 2025.

30.3 Aspire Capital Securities Purchase Agreement

On February 10, 2020, the Company entered into a Securities Purchase Agreement (the "Agreement") to issue up to $28 million of the Company's ordinary shares exchangeable for American Depositary Shares ("ADSs"), including a $3 million initial purchase, with Aspire Capital Fund, LLC ("Aspire Capital"), a Chicago-based institutional investor.

Under the terms of the Agreement, Aspire Capital has made an initial investment of $3 million to purchase 11,423,925 of the Company's ordinary shares (equivalent to 2,286,585 ADSs) at a price equivalent to $1.31 per ADS, which represents a 16% discount over Mereo's ADS closing stock price of $1.56 on February 8, 2020.

Under the terms of the Agreement, Aspire Capital has also committed to subscribe at Mereo's request from time to time during a 30-month period for up to an additional $25 million of Mereo's ordinary shares exchangeable for ADSs at prices based on the ADS market price at the time of each sale.

In consideration for Aspire Capital's initial investment and its commitment to purchase up to an additional $25 million ADSs, Mereo has agreed to pay Aspire Capital a commission to be satisfied wholly by the issue to Aspire Capital of a further 2,862,595 of the Company's ordinary shares (equivalent to 572,519 ADSs).

30.4 Equity investment from Boxer Capital, LLC

On February 19, 2020, the Company entered into a Securities Purchase Agreement with Boxer Capital, LLC to make an investment of $3 million to purchase 12,252,715 of the Company's ordinary shares (equivalent to 2,450,543 ADSs) at a price equivalent to 18.8 pence per share, which represents a 20% discount over the Company's closing share price of 23.5 pence on AIM on February 18, 2020.

30.5 Share-based payments

On February 20, 2020, the Company granted 962,836 market value options over ADSs under the Mereo 2019 EIP (Note 26.1) to certain Executive Directors and other employees at an exercise price of $1.84 per ADS.

On the same date, the Company granted 77,000 market value options over ADSs under the Mereo 2019 NED EIP (Note 26.2) to certain Non-Executive Directors at an exercise price of $1.84 per ADS.

30.6 Issuance of additional warrants to lenders

Following the transactions noted above, it is anticipated that a further 362,534 additional warrants will be issued to the lenders of the bank loan facility giving them the right to subscribe for ordinary shares at an exercise price of £2.95 (see Note 21).

30.7 Resignation of Chief Financial Officer ("CFO")

On March 27, 2020, we announced the resignation of Richard Jones. Michael Wyzga, a Non-Executive Director, will assume the role of Interim Chief Financial Officer following the departure of Richard Jones. Richard Jones will remain in his position as CFO for a transitionary period of up to five months.

For further details, refer to the Directors' Remuneration Report within this report.

30.8 Coronavirus ("COVID-19")

The outbreak of COVID-19 has developed into a global pandemic, spreading to most regions of the world including the United States and the United Kingdom and to locations where we have facilities or ongoing clinical trials. The pandemic has resulted in impacts both direct and indirect to businesses including disruptions to resources, inability of workers to carry out their jobs effectively, disruptions to supply chains, inability to travel and increased pressure on health systems required to treat COVID-19.

As a result of government and local regulation we have been required to introduce a work from home policy for the large majority of our work force and our facilities remain open only for business critical activities. The requirement by governments to stay at home or to "social distance" limits normal communications and may also increase cyber security risk or create data accessibility concerns. It also significantly curtails the numbers of individuals who can work in our offices.

COVID-19 has created an unprecedented burden on health systems in impacted countries around the world. As a result, clinical centers have diverted resources away from the performance of clinical trials and because of that and the vulnerability of patients in the Company's setrusumab clinical development program for osteogenesis imperfecta (OI) and its Phase 2 alvelestat program for patients with alpha-1 antitrypsin deficiency (AATD), the Company's clinical activities will face some delays. AATD patients, in particular, are at greater risk from COVID-19 given that the condition is a respiratory and lung condition, for this reason, our Phase 2 alvelestat trial will be delayed with topline data now expected in 2021. We are also currently planning to initiate a Phase 3 study in children with OI in late 2020, however, the initiation of the study may also be delayed.

30.9 Equity fund raise

On June 4, 2020, Mereo BioPharma Group plc announced completion of a private placement offering (the "Fundraising") of $70 million (£56 million) before commission and expenses with a number of new and existing principally U.S based institutional and accredited investors (the "Purchasers"). The net proceeds from the Fundraising will be used primarily to fund clinical development activities of the Company's lead product candidates and for general corporate purposes. The Company will utilize $13 million (£10.4 million) to reduce current indebtedness (including interest) of $17.6 million (£14.1 million). In the absence of the receipt of any other income, the Board expects that the resulting net proceeds of the Fundraising will fund the Company into early 2022.

The Fundraising comprised proceeds of a total of $19.4 million (£15.5 million) through the issue of 89.1 million new Ordinary Shares of £0.003 each in the Company at a price of 17.4 pence per share and proceeds of a total of $50.6 million (£40.5 million) through the issue by the Company of convertible notes (the "Tranche 1 Notes"). The Purchasers also received conditional warrants to subscribe for further Ordinary Shares (the "Warrants").

The ability for the Tranche 1 Notes to be converted into Ordinary Shares and for the Warrants to be exercised is conditional on the passing of certain resolutions (the "Resolutions") at a general meeting of shareholders scheduled for June 30, 2020 (the "General Meeting").

If the Resolutions are passed, the Tranche 1 Notes will automatically convert into Ordinary Shares at 17.4p, subject to limitations that apply to the percentage of voting shares that may be held by Purchasers. Any Tranche 1 Notes not so converted will remain outstanding. The Tranche 1 Notes will not be separately admitted to trading on AIM, but the Ordinary Shares which will arise following any valid conversion of the Tranche 1 Notes will be admitted to trading as part of the Company's single class of shares admitted to trading on AIM or the relevant exchange on which the Company's shares are traded at the time the Tranche 1 Notes are converted. The Board estimates that 21,674,143 Tranche 1 Notes will convert automatically if the Resolutions are passed on June 30, 2020, resulting in 124,564,033 Ordinary Shares (excluding Ordinary Shares resulting in respect of interest on the converted Tranche 1 Notes) being issued, leaving 18,859,528 Tranche 1 Notes in issue.

The Tranche 1 Notes are constituted by the Note Instrument, details of which are set out below. The Warrants are constituted by the Warrant Instrument, details of which are also set out below.

If the Resolutions are not passed on or before August 7, 2020 the convertible notes will not convert into ordinary shares, the warrants will not become capable of exercise and the holders of the convertible notes

and warrants will become entitled to certain amounts (up to £137 million) that will represent material liabilities for the Company. The Purchasers, representing in aggregate approximately 40 per cent. of the Company's total number of shares and votes have undertaken to vote in favour of the Resolutions relating to the warrants and the convertible notes.

Note Instrument

The Note Instrument constitutes three potential tranches of Loan Note:

- an initial tranche of 40,533,671 Tranche 1 Notes representing $50.6 million (£40.5 million) issued to all

Purchasers;

- a second tranche of up to £40.0 million Tranche 2 Notes representing approximately 115,034,554 ordinary shares which may be issued following the third anniversary of the date on which the Resolutions are passed to certain holders of Tranche 1 Notes in lieu of the holder exercising its subscription rights under the Warrants and in return for payment by that holder of the aggregate exercise price of the relevant Warrants; and
- a third tranche of up to £56.0 million Tranche 3 Notes, which may be issued, if the Resolutions are not passed at the General Meeting (or at any subsequent general meeting) held on or before August 7, 2020.

The Tranche 1 Notes have a maturity date of June 2023 unless otherwise extended, converted or accelerated. The Tranche 2 Notes have a maturity date of three years from their date of issue (i.e. such that they would be anticipated as becoming due in 2026) unless otherwise extended, converted or accelerated. The Tranche 3 Notes have a maturity date of August 2025 unless otherwise extended, converted or accelerated. The Tranche 1 Notes and Tranche 2 Notes may be extended by certain holders beyond the initial maturity date to have a longstop maturity date of 10 years from the date of the Note Instrument. Tranche 3 Notes may also be extended by certain holders beyond the initial maturity date up to the same longstop maturity date of 10 years from the date of the Loan Note Instrument, however, such extension is subject to the consent of the Company.

Tranche 1 Notes will initially bear interest at a fixed rate of 10 per cent. per annum, which will be retroactively reduced to a rate of 6 per cent. per annum to the date of issue if the Resolutions are passed on or before August 7, 2020. If the Tranche 1 Notes are extended, they cease to bear interest from that extension. Tranche 2 Notes and Tranche 3 Notes do not accrue interest (unless default interest applies). Following an event of default by the Company, default interest will accrue on all Loan Notes at 2 per cent. above the applicable interest rate in force at that time for the relevant Loan Notes.

All the Loan Notes are unsecured and have been contractually subordinated to the Company's existing senior debt facility with Silicon Valley Bank and Kreos Capital pursuant to the terms of a Subordination Agreement to which all Purchasers have acceded as part of the Fundraising.

If the Resolutions are not passed on or before August 7, 2020, the holders of Tranche 1 Notes are entitled to an additional fee (the "Uplift Payment"). The Uplift Payment is designed to compensate the Tranche 1 Noteholders for being unable to participate in the equity of the Company through the conversion of the Tranche 1 Notes and the exercise of Warrants. The value of the Uplift Payment for each Purchaser shall be equal to the aggregate principal amount of the Loan Notes held by such Purchaser on August 7, 2020. Any Purchaser who fails to attend the General Meeting (in person or by proxy) and vote in favour of the Resolutions relating to the Warrants and the Tranche 1 Notes shall not be entitled to the Uplift Payment. Any Uplift Payment if due, is payable on the redemption date of the relevant Loan Notes.

If the Resolutions are not passed on or before August 7, 2020, an original holder of the Warrants may elect without payment to convert its Warrants into fully paid Tranche 3 Notes with a principal amount equal to the aggregate exercise price (being 34.8 pence per Warrant Share) of those Warrants, in compensation for the right to exercise those Warrants not having arisen.

If the Resolutions have not been passed at a time when the Company undergoes a change of control, each Noteholder on the date of such change of control, shall (to the exclusion of the Uplift Payment) be entitled to a payment equal to the amount of consideration they would have received on such change of control had

the Resolutions been passed and they had received their full entitlement of Ordinary Shares and all Warrants they held had become exercisable, less the aggregate principal and interest outstanding on the Tranche 1 Notes and certain residual interests in the Warrants (if any) they held on the date of the change of control (the "Change of Control Payment").

Until the Resolutions have been passed, no Tranche 1 Notes are capable of conversion. If the Resolutions are passed on or before August 7, 2020, the Tranche 1 Notes will automatically convert into Ordinary Shares, except that no new Ordinary Shares will be issued which would result in any person holding in excess of 9.99 per cent. of the aggregate voting rights in the Company as a result of the relevant conversion. Any Tranche 1 Notes not converted will remain outstanding.

After the Resolutions have been passed, those Tranche 1 Notes not automatically converted and any Tranche 2 Notes that may be issued, will be convertible into Ordinary Shares at the election of the Noteholders at any time prior to their maturity date, and subject to the 9.99 per cent. beneficial ownership limit. The Tranche 3 Notes are not capable of conversion.

The Loan Notes are required to be repaid on the earlier of (i) the applicable maturity date; and (ii) a change of control taking place in respect of the Company, and are otherwise not able to be prepaid other than with the consent of a noteholder majority, or if accelerated following an event of default.

The Loan Notes are subject to customary events of default (for example, insolvency events in respect of the Company and default under the Company's material contracts, amongst others) and any principal amount and interest outstanding is capable of being accelerated following the occurrence of such an event of default and the expiry of any cure periods applicable thereto.

Warrants
All the participants in the Fundraising have received conditional warrants to subscribe for further Ordinary Shares in an aggregate number equal to 50 per cent. of both the Ordinary Shares purchased in the Fundraising and the Ordinary Shares initially issuable upon conversion of the Tranche 1 Notes. A total of 161,048,366 Warrants have been issued.

The Warrants have an exercise price of 34.8 pence per Ordinary Share, which is equal to 200 per cent. of the Fundraising issue price, and will be capable of being exercised at any time from and after the date the Resolutions are passed at the General Meeting (or at any subsequent general meeting) until the third anniversary of the date the Resolutions are passed. The Warrants can be exercised for cash or on a cashless basis.

If the Resolutions are not passed at the General Meeting (or at any subsequent general meeting), the Warrants remain non-exercisable but will, until August 8, 2025, continue to benefit from rights to participate in certain transactions. These include if the Company is acquired, following which the Company is required to use its best efforts to ensure that Warrant holders receive alternate warrants in the acquirer. In certain circumstances, Warrant holders may require the Company (or the acquirer) pay them (to the extent lawful) the value of the Warrants, determined in accordance with a BlackScholes valuation provision.

The Warrant exercise price and the number of shares issuable upon exercise of the Warrants will be adjusted in certain circumstances, including if the Company effects a subdivision or consolidation of its Ordinary Shares, declares a dividend or distribution, or there is a reorganisation of its Ordinary Shares.

Arrangements with OrbiMed
In recognition of OrbiMed's participation in, and assistance with, the Fundraising, the Company has agreed to grant OrbiMed certain rights. OrbiMed will have the right to nominate two persons to be appointed to the Board of Directors (out of a maximum number of 9 directors), within a period of 180 days of the Fundraising subject to the appropriateness of the nominees. OrbiMed has also been granted the right to participate in future financings of the Company, subject, amongst other things, to the existing pre-emption rights of the Shareholders under the Companies Act 2006 and certain existing agreements to which the Company is a party. OrbiMed has been paid a subscription fee of $325,000 by the Company by way of a commission in consideration of its participation in the Fundraising.

as at December 31, 2018 and 2019

	Notes	Year Ended December 31, 2018	2019
		(in £'000)	
Assets			
Non-current assets			
Property, plant and equipment	6	149	1,696
Investments	4	123,374	156,280
		123,523	157,976
Current assets			
Prepayments		1,067	1,557
Other receivables		631	565
Short-term investments		2,500	–
Cash and short-term deposits		25,020	4,307
		29,218	6,429
Current liabilities			
Trade and other payables		4,570	5,254
Accruals		4,437	3,414
Interest-bearing loans and borrowings	7	6,838	15,139
Lease liability		–	697
		15,845	24,504
Net current assets/(liabilities)		13,373	(18,075)
Total assets less current liabilities		136,896	139,901
Non-current liabilities			
Provisions	8	842	104
Interest-bearing loans and borrowings	7	14,647	5,373
Warrant liability	9	1,006	131
Other liabilities		34	44
Lease liability		–	911
		16,529	6,563
Net assets		120,367	133,338
Equity shareholders' funds			
Share capital	10	214	294
Share premium	10	118,492	121,684
Other capital reserves	10	18,593	59,147
Other reserves	10	7,000	7,000
Employee Benefit Trust shares	12	(307)	(1,305)
Losses brought forward		(13,650)	(23,625)
Loss for the year		(9,975)	(29,857)
		(23,625)	(53,482)
Total equity shareholders' funds		120,367	133,338

The accompanying notes form an integral part of these consolidated financial statements.

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.

Approved by the Board on June 14, 2020 and signed on its behalf by:

Dr. Denise Scots-Knight
Director

Richard Jones
Director

Company number: 09481161 (England and Wales)

for the years ended December 31, 2018 and 2019

	Issued capital	Share premium	Other capital reserves	Employee Benefit Trust (in £'000)	Other reserves	Accum-ulated losses	Total equity
At December 31, 2017	213	118,227	16,359	—	7,000	(13,774)	128,025
Loss for the year to December 31, 2018	—	—	—	—	—	(9,975)	(9,975)
Adoption of IFRS 9	—	—	—	—	—	124	124
Share-based payments – share options	—	—	1,871	—	—	—	1,871
Share-based payments – LTIPs	—	—	319	—	—	—	319
Issue of share capital on June 1, 2018	—	150	—	—	—	—	150
Issue of share capital on August 3, 2018 on exercise of options	—	13	—	—	—	—	13
Issue of share capital on October 22, 2018 on exercise of options	1	110	—	—	—	—	111
Issue of warrants for TAP agreement	—	—	44	—	—	—	44
Transaction costs on issuance of share capital	—	(8)	—	—	—	—	(8)
Purchase of treasury shares	—	—	—	(307)	—	—	(307)
At December 31, 2018	214	118,492	18,593	(307)	7,000	(23,625)	120,367
Loss for the year to December 31, 2019	—	—	—	—	—	(29,857)	(29,857)
Share-based payments – share options	—	—	1,543	—	—	—	1,543
Share-based payments – LTIPs	—	—	93	—	—	—	93
Issue of share capital on April 23, 2019	74	—	40,818	—	—	—	40,892
Transaction costs related to issuance of share capital on April 23, 2019	—	(761)	—	—	—	—	(761)
Issue of share capital on conversion of loan note	3	2,366	—	—	—	—	2,369
Issue of share capital on Novartis bonus shares	3	1,587	(1,590)	—	—	—	—
Equity element of convertible loan note	—	—	(310)	—	—	—	(310)
Purchase of treasury shares	—	—	—	(998)	—	—	(998)
At December 31, 2019	**294**	**121,684**	**59,147**	**(1,305)**	**7,000**	**(53,482)**	**133,338**

1. Significant accounting policies

1.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

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

Under Section 408(4) of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Presentation of a cash flow statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;
- The compensation of key management personnel; and
- Required disclosures relating to capital management.

As the consolidated financial statements of Mereo BioPharma Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 (Share-Based Payments) in respect of Group-settled share-based payments;
- Certain disclosures required by IAS 36 (*Impairment of Assets*);
- Certain disclosures required by IFRS 13 (*Fair Value Measurement*);
- Certain disclosures required by IFRS 7 (*Financial Instruments Disclosures*).

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The financial information is presented in pound sterling and all amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units, unless otherwise stated.

1.2 Changes of accounting policies

The accounting policies for the Company that relate to the adoption of IFRS 16 (Leases) can be found in Note 4 of the consolidated financial statements.

The adoption of IFRS 16 (Leases) had a material impact on the Company.

1.3 Summary of significant accounting policies

The Company's accounting policies are consistent with those described in the consolidated accounts of Mereo BioPharma Group plc, within Note 2 of the consolidated financial statements. Below are accounting policies which are specific to the Company.

a) Intercompany guarantee

The Company accounts for financial guarantees in accordance with IFRS 9 (Financial Instruments).

Financial guarantees given by subsidiaries to the Company are initially measured at fair value. The total cost of such guarantees is charged to the profit and loss account at the time the guarantee is given.

b) Investment in subsidiaries

Investments in subsidiary undertakings are stated at cost less amounts written off. Amounts capitalized as investments in subsidiary undertaking are reviewed for impairment at each period end in accordance with IAS 36 (Impairment of Assets).

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.

Impairment of investments in subsidiaries

An assessment was made in respect of indicators of impairment in the carrying value of the Group's investment in subsidiaries as at December 31, 2019. 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 significant judgments regarding the likelihood of successful product approval, the costs of reaching approval, the estimated useful life of intangible assets following commercialization and the subsequent commercial profitability of the product once approved.

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 £29.9 million (2018: £10.0 million), which has been included in the Company's profit and loss account.

The Auditor's remuneration for audit and other services is disclosed in Note 7 of the consolidated financial statements.

The average number of employees employed by the Company (including Directors) in the year was 37 (2018: 36).

4. Company information

4.1 Investments in subsidiaries

Cost	
At January 1, 2018	**97,105**
Additions in the year	26,269
At December 31, 2018	**123,374**
Additions in the year	10,820
Share-based payments to Group employees	440
Acquisition of OncoMed on April 23, 2019	40,892
At December 31, 2019	**175,526**
Provision for impairment	
Charge during the year	19,246
At December 31, 2019	**19,246**
Net book value	
At December 31, 2019	**156,280**
At December 31, 2018	123,374

On April 23, 2019, the Company issued 24.8 million ordinary shares to acquire OncoMed. The fair value of the 24.8 million ordinary shares issued as the consideration paid for OncoMed was measured based on the Group's quoted share price on April 23, 2019 and is recorded as an investment in subsidiary within the Company's financial statements. The fair value is deemed to be £40.9 million.

The Company grants rights to its own equity instruments to Group employees who are not employees of the Company. For these grants, the Company recognizes in equity the equity-settled share-based payment with a corresponding increase in the investment in the subsidiary in the separate financial statements.

The total amount of impairment loss recorded during the year ended December 31, 2019 was £19.2 million. The impairment loss was due to the recoverable value of an investment in a subsidiary falling below the carrying amount (held at cost, in accordance with the Company's accounting policies). The recoverable value of the investment was measured based on either the value in use or the realizable value and the discount rate used in the calculation of value in use was 15.3%. Any change in assumptions could result in further impairment loss in the future.

4.2 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, 2019	% equity interest December 31, 2018
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	100
OncoMed Pharmaceuticals, Inc.	Pharmaceutical R&D	U.S.	100*	–
Navi Subsidiary, Inc.	Pharmaceutical R&D	U.S.	100*	–
Mereo US Holdings Inc.	Holding company	U.S.	100	100
Mereo MergerCo One Inc.	Holding company	U.S.	–	100
Mereo BioPharma Group plc Employee Benefit Trust	Employee share scheme	Jersey	–	–

** denotes a subsidiary which is indirectly held by the Company*

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. 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 business combination with OncoMed (see Note 5 of the consolidated financial statements). Following the business combination with OncoMed, Mereo MergerCo One Inc. ceased to exist. The registered office of Mereo US Holdings Inc. is 251 Little Falls Drive, City of Wilmington, County of New Castle, Delaware 19808, U.S. Mereo MergerCo One Inc. was a 100% owned subsidiary of Mereo US Holdings Inc.

OncoMed became a wholly owned subsidiary of Mereo US Holdings Inc. on April 23, 2019 and is therefore an indirect, wholly owned subsidiary of Mereo BioPharma Group plc. The registered office of OncoMed Pharmaceuticals, Inc. is 251 Little Falls Drive, City of Wilmington, Country of New Castle, Delaware 19808, U.S. Navi Subsidiary, Inc, incorporated on April 15, 2019, is a wholly owned subsidiary of OncoMed.

A capital contribution of £11.3 million (2018: £26.3 million) by Mereo BioPharma Group plc to its subsidiaries was recorded in the year to December 31, 2019. £0.4 million (2018: £0.7 million) has been recorded for the granting of employees' share options for services rendered by the employees to the subsidiaries. £10.8 million (2018: £25.6 million) has been recorded for the conversion of intercompany balances at original cost.

As at December 31, 2019, a total capital contribution of £4.0 million (2018: £3.6 million) 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, 2019, a total capital contribution of £131.3 million (2018: £119.8 million) 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

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

As at December 31, 2019, amounts owed by Group undertakings is nil (2018: £nil).

6. Property, plant and equipment

Further details on the initial application of IFRS 16 (Leases) are presented in Note 4 (Adoption of new and revised standards) of the consolidated financial statements. The Company has decided to present right-of-use assets within property, plant and equipment.

On initial application of IFRS 16 (Leases), the Company recognized a right-of-use asset of £2.5 million relating to a building (£1.2 million) and scanning equipment (£1.3 million). During the year, the lease term on the scanning equipment was re-assessed.

As at December 31, 2019, the net book value of right-of-use assets is £1.5 million (of which £1.0 million relates to a building and £0.5 million relates to scanning equipment).

7. 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 19 of the consolidated financial statements.

8. Provisions

	Year ended December 31,	
Social security contributions on share options	2018	2019
At beginning of year	2,288	842
Arising during the year	–	–
Released	(1,446)	(738)
At December 31	842	104
Current	–	–
Non-current	842	104

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 26 of the consolidated financial statements) the liability has been classified as non current. The provision has been discounted

9. Warrant liability

The Group's warrant liability resides in the Company. Details on the warrant liability of the Company are provided in Note 21 of the consolidated financial statements.

10. Share capital, share premium and other reserves

The Group's share capital all resides in the Company. Details on the share capital of the Company are provided in Note 18 of the consolidated financial statements.

11. Share-based payments

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

	Year ended December 31, 2018	2019
2015 Plan	718	85
Mereo BioPharma Group plc Share Option Plan	499	518
Long Term Incentive Plan	285	87
2019 Equity Incentive Plan	–	347
2019 NED Equity Incentive Plan	–	160
	1,502	1,197

Details on the share-based payments of the Company, including deferred equity consideration, are provided in Note 26 of the consolidated financial statements.

12. Related party disclosures

Details on related parties are provided in Note 28 of the consolidated financial statements.