Mereo BioPharma Group plc
("Mereo" or the "Company" or the "Group")

Unaudited interim results for the six month period ended June 30, 2018

Continued strong progress across all programs

London, 8 August 2018 – Mereo BioPharma Group plc (AIM: MPH), a clinical stage, UK-based, biopharmaceutical company focused on rare diseases, is pleased to announce its unaudited interim results for the six months ended June 30, 2018 which demonstrate that Mereo continues to make strong progress on all fronts.

Operational highlights

BPS-804 for Osteogenesis Imperfecta (OI)

- Enrolment in Mereo's adult Phase 2b study for Osteogenesis Imperfecta (OI) due to complete around the end of Q3 2018
- The Adult Phase 2b study is currently being amended and this will result in 6-month efficacy data from an open-label high-dose arm to be available in mid H1 2019
- In July 2018 Mereo's Paediatric Investigation Plan (PIP) was recommended for approval by the European Medicine Agency's (EMA's) Paediatric Committee (PDCO) and this now clears the regulatory path for our planned registration study in this patient population in Europe
- Further positive interactions with the EMA through the PRIority Medicines for Europe scheme (PRIME) and Adaptive Pathways providing valuable input into our regulatory, manufacturing and commercial roadmap for BPS-804

MPH-966 (Formerly known as AZD-9668) for severe Alpha-1 Antitrypsin Deficiency (AATD)

- Mereo has initiated a Phase 2 proof of concept study in the US and EU with first patient expected to be enrolled by early Q4 2018 and with top-line data expected in H2 2019
- In April 2018, the National Centre for Advancing Translational Sciences (NCATS) issued the first phase of a grant award expected to total $10 million to The University of Alabama at Birmingham (UAB) to study MPH-966 in AATD. Mereo plans to support this study by providing clinical trial materials and regulatory assistance. This substantial NCATS grant is a validation of the relevance of targeting neutrophil elastase in AATD and the data generated will be supportive to our eventual package. We look forward to working closely with UAB.

BGS-649 for Hypogonadotropic Hypogonadism (HH)

- In March 2018 Mereo announced positive top-line data from the Phase 2b dose-ranging study of BGS-649 for the treatment of HH in Obese Men
- The follow-on six-month Phase 2b safety extension study enrolled 143 patients with top-line 12-month data is expected in Q4 2018

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

- In May 2018 the top-line data from Mereo's completed Phase 2 AECOPD study was presented at the American Thoracic Society (ATS) conference
- In addition, following completion of the Clinical Study report (CSR) for this study, additional analyses completed including data on inflammatory biomarkers and outcomes of patients with more than two exacerbations per year, supporting the underlying mechanism of action and totality of the clinical outcomes data
- Partnering discussions were initiated in the first half of the year and continue to progress

Corporate

- In February 2018 Wills Hughes-Wilson was appointed as Head of Patient Access and Commercial Planning
- Mereo continued to increase IP protection across the portfolio during the period with new patent applications being pursued for all four products
- A potential offering and additional listing of American Depositary Shares (ADS's) on the Nasdaq Global Market (NASDAQ) remains under consideration

- Mereo continues to review a strong pipeline of additional new rare disease product opportunities in bone, respiratory and endocrine diseases from pharmaceutical and large biotechnology companies

Financial Highlights

- Loss after tax for the six month period of £17.0 million (H1 2017: £22.7 million) or 24 pence per ordinary share (2017: 34 pence per ordinary share)
- Net cash resources[1] of £36.9 million at June 30, 2018, after net operating and investing outflows of £15.8 million and before receipt of the FY 2017 R&D tax credit of £8.2m received in early August 2018
- Total development costs significantly reduced to £10.9 million (H1 2017 £21.4 million) reflecting an overall reduction in development activity in the period compared to the same period last year. This reflected a reduction in spend on BGS-649 and BCT-197 as these Phase 2 studies neared completion offset somewhat by ongoing expenditure on the BPS-804 Adult Phase 2b study and planning for the start of the MPH-966 study
- Non-material placing via the PrimaryBid retail platform completed in June 2018 expanding our non-institutional shareholder base

Dr Denise Scots-Knight, Chief Executive Officer of Mereo BioPharma Group plc commented:

"We continue to make strong progress on all fronts, most recently with the initiation of a Phase 2 study for patients with severe alpha-1 anti-trypsin deficiency and the approval of our plans for children with severe Osteogenesis Imperfecta in Europe which includes our key pivotal study. We are pleased with our continuing interaction with the European regulators which provides us with the opportunity to engage in an ongoing dialogue in OI and to receive tailored development support with the goal of providing patients with earlier access to BPS-804. With enrolment in our adult OI study expected to complete shortly, we look forward to reporting our first set of data for BPS-804 early next year. We are also on track to report the 12 month data on BGS-649 in Q4 2018 following the positive top-line 6 month data earlier this year. Finally, we continue to actively evaluate a number of opportunities in rare respiratory, bone and endocrine diseases to expand our product portfolio and we remain focussed on building a leading commercial business in orphan drugs and rare disease therapies."

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About Mereo

Mereo is a biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for patients with rare diseases. The portfolio currently consists

of four clinical-stage product candidates, each of which were acquired from large pharmaceutical companies: BPS-804 (setrusumab) for the treatment of osteogenesis imperfecta (OI); MPH-966 (alvelestat) for the treatment of severe alpha-1 antitrypsin deficiency (AATD); BGS-649 (leflutrozole) for the treatment of hypogonadotropic hypogonadism (HH) in obese men and BCT-197 (acumapimod) for the treatment of acute exacerbations of chronic obstructive pulmonary disease (AECOPD). Each of the Company's product candidates has generated positive clinical data for Mereo's target indication or in a related indication. The Company's strategy is to selectively acquire product candidates that have already received significant investment from pharmaceutical companies and that have substantial preclinical, clinical and manufacturing data packages. Since inception the Company has commenced large, randomised, placebo-controlled Phase 2 clinical trials for three of the product candidates and has previously announced positive top-line results from two of its clinical trials; a Phase 2 trial with BCT-197 in December 2017 and a Phase 2b dose-ranging study with BGS-649 in March 2018.

[1] *Net cash resources defined as cash and short-term deposits, and short-term investments*

Chairman and CEO's statement

Introduction

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

Products for use in rare (including orphan) indications represent an attractive development and commercialization opportunity for the Company, since they typically have high unmet medical need, require more targeted clinical trials and can often utilise regulatory pathways that facilitate acceleration to the potential market. Development of rare disease products generally involves close co-ordination with patient organisations, key opinion leaders (KOLs) and a limited number of specialized treatment sites, which helps identification of the patient population and allows for a smaller, more targeted sales infrastructure for commercialization in key markets.

For our existing speciality programs, the Group plans to partner or sell the products at an appropriate stage in their development prior to commercialization, recognising the need for a larger sales infrastructure and greater resources to take these products to market. This may be following dose optimisation or, in certain cases, following one or both the Phase 3 studies required for product approval and registration.

We have made significant progress across our existing programs in the first half of 2018 and were delighted to announce positive results from our Phase 2b study in HH in March 2018. With the completion of enrolment into our Adult Phase 2b study in OI due around the end of Q3 2018 and the initiation of our Phase 2 study into severe AATD progressing to plan, we are expecting multiple data read-outs in 2019.

We remain well-funded with cash resources at June 30, 2018 of £36.9 million to support our existing programs until towards the end of 2019. In respect of our longer-term funding, earlier in 2018 we also engaged in a process to consider an offering and listing of ADSs in the United States on the Nasdaq Global Market. We decided to postpone this process in April 2018 in the best interests of our shareholders and based on market conditions at the time. However, this option remains under consideration, and NASDAQ continues to represent an attractive market to enable us to provide the longer-term funding to execute our strategy.

We are also continuing to actively review opportunities from pharmaceutical and large biotechnology companies to expand our existing portfolio of rare disease assets, which is an important component of our business model.

Business Overview

BPS-804 (Setrusumab)

BPS-804 is a potential product for the treatment for OI, also known as brittle bone disease, which we acquired from Novartis in 2015. We have made significant progress across regulatory, clinical and manufacturing operations for this product in the period. We also anticipate announcing full recruitment of approximately 100 patients into our adult Phase 2b study around the end of Q3 2018.

Based on feedback from the FDA we amended the primary endpoint of this dose-ranging study from six to twelve months, with top-line data now due towards the end of H2 2019. In addition, we are currently further amending this study and now plan to report six-month data at the top dose in a small but significant open label cohort of patients in mid H1 2019. These data will include the revised primary endpoint of change from baseline of Bone Mineral Density (BMD) as measured by High Resolution peripheral Quantitative Computed Tomography (HR-pQCT) and the secondary endpoints of BMD using traditional two-dimensional dual-energy X-ray absorptiometry (DXA) measurement together with measurement of serum bone biomarkers.

We are also pleased to announce that our Paediatric Investigation Plan (PIP) has been recommended for approval by the PDCO of the EMA. This pivotal/registration trial is based on a primary end-point of fracture rate over a 12-month period and will be conducted in approximately 160 children with severe disease aged 5-18 years old. We also intend to validate HR-pQCT as a biomarker in this study, which we plan to commence in 2019. This is a key step in our plans to commercialise BPS-804 in both children and adults.

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

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

We have commenced a Phase 2 proof-of-concept clinical trial in approximately 165 patients with severe AATD with the first patient due to be enrolled by early Q4 2018 and top-line data expected in H2 2019. The primary end-point for this study is based upon the biomarker desmosine which has been shown to correlate with deterioration of lung tissue as determined by CT scans. If the results are favourable, we intend to seek regulatory advice on the design of, and commence, a pivotal trial as soon as possible thereafter.

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

BGS-649 (leflutrozole)

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

A six-month extension study in 143 patients to confirm the safety of long-term treatment and to provide additional clinical data has completed enrolment with top-line data expected in Q4 2018. The data from both studies, together with the comprehensive historical data package will form the basis of regulatory interactions in H1 2019 to confirm the development plans towards commercialization of BGS-649 and the significant market opportunity it represents.

BCT-197 (acumapimod)

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

In December 2017 we announced positive top-line data from a Phase 2 dose optimisation study in 282 patients. The full results demonstrated the potent anti-inflammatory effect of BCT-197 with dose dependent, statistically significant reductions in both high sensitivity C-Reactive Protein (hsCRP) and fibrinogen. hsCRP remained supressed for the period out to day 180. Furthermore, there was a statistically significant reduction of more than 50% in the pre-specified endpoint of re-hospitalisations for the treatment of COPD at days 90 through 150 in the high-dose group following a short course of three doses of treatment over five days. This effect was even more pronounced in patients with more than two

exacerbations per year. Consistent with the above, there was a significant reduction in the use of corticosteroid and antibiotics in the follow up phase of the study.

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

In line with our stated strategy for our speciality products we commenced discussions with potential partners for BCT-197 earlier this year and these continue to progress.

New Product Opportunities

We continue to seek and review new product opportunities to expand and grow our portfolio in bone, respiratory and endocrine rare diseases with the aim of becoming a leading player in the development and commercialization of novel therapies for rare diseases. There continues to be a good number of opportunities arising from pharma and large biotech companies as they continue to undergo strategic reviews and focus their development pipelines on a smaller number of therapeutic areas.

Financial Review

During the period, R&D expenditure fell by £10.5 million to £10.9 million from £21.4m in 2017. This was due to an overall reduction in development activity. This was due to a phasing down of costs in respect of our two Phase 2 studies for BGS-649 and BCT-197 as these studies approached completion, offset somewhat by the ongoing spend in the adult BPS-804 study and initial start-up costs on the Phase 2 study for MPH-966. Our administrative expenses were £7.1 million (2017: £5.0 million) and this included one-off exceptional costs relating to our application to list on the Nasdaq Global Market earlier in the year of £2.2 million together with non-cash share option charges of £1.4 million.

The loss per share for the six month period was 24 pence (2017: 34 pence). Adjusted loss per share after taking account of certain non-cash and one-off items (see note 5) was 19 pence per share (2017: 28 pence).

We started the year with net cash resources[1] of £56.6 million. After taking account of our net loss, adjusted for non-cash items including share-based payment charges, net cash resources[1] at the end of the period were £36.9 million. In addition, we received the R&D tax credit in respect of FY 2017 of £8.2 million early in August 2018.

During the period we completed a non-material retail offering via the PrimaryBid retail platform which successfully increased the breadth of our non-institutional shareholder base. 50,076 new shares were issued at 300p per share on May 29, 2018.

Outlook

Following the successful completion of our key studies with both our speciality programs BCT-197 and BGS-649, our development focus is now moving to our rare disease programs BPS-804 and MPH-966. We are pleased to report that we anticipate enrolment into the BPS-804 adult OI study to be completed around the end of Q3 2018 and we look forward to reporting the first set of six-month data in mid H1 2019 along with the full set of dose-ranging top-line data towards the end of H2 2019. We also expect to announce the results of our Phase 2 study for MPH-966 in H2 2019 with the first patient due to be enrolled in early Q4 2018.

Our commercial focus is on partnering BCT-197, considering the partnering options for BGS-649 and on continuing to actively evaluate new product opportunities in rare diseases. In addition, we continue to plan our future commercialization strategy for BPS-804 and this includes active engagement with the

wider stakeholder community in OI, including KOL's, investigators, patient groups, regulators, Health Technology Assessment bodies (HTA's) and payers.

Finally, we remain well-funded in the short term but continue to evaluate the opportunity to access a wider pool of longer-term equity capital by an offering and listing of ADSs in the United States on NASDAQ at an appropriate time.

Dr Peter Fellner **Dr Denise Scots-Knight**
Chairman ***Chief Executive Officer***

7th August 2018

[1] Net cash resources defined as cash, short-term deposits and short-term investments

Consolidated statement of comprehensive loss

for the six months ended June 30, 2018

	Notes	**Six months ended June 30, 2018 Unaudited £**	Six months ended June 30, 2017 Unaudited £	Year ended December 31, 2017 Audited £
Research and development expenses		**(10,864,310)**	(21,406,625)	(34,606,649)
Administrative expenses		**(7,101,760)**	(5,040,586)	(10,697,194)
Operating loss		**(17,966,070)**	(26,447,211)	(45,303,843)
Finance income		**151,467**	268,913	826,855
Finance charge		**(1,587,150)**	(69,470)	(1,089,925)
Net foreign exchange gain/(loss)		**49,305**	(1,040,139)	(1,384,225)
Loss before tax		**(19,352,448)**	(27,287,907)	(46,951,138)
Taxation		**2,364,904**	4,545,613	8,152,084
Loss for the period, attributable to equity holders of the parent		**(16,987,544)**	(22,742,294)	(38,799,054)
Total comprehensive (loss) for the period, net of tax and attributable to the equity holders of the parent		**(16,987,544)**	(22,742,294)	(38,799,054)
Basic and diluted loss per share for the period	5	**(0.24)**	(0.34)	(0.56)
Non-GAAP measure				
Adjusted loss per share	5	**(0.19)**	(0.28)	(0.47)

Consolidated balance sheet

as at June 30, 2018

	Notes	**June 30, 2018 Unaudited £**	June 30, 2017 Unaudited £	December 31, 2017 Audited £
Assets				
Non-current assets				
Property, plant and equipment		**151,996**	168,263	153,361
Intangible assets	6	**32,690,229**	25,812,941	33,005,229
		32,842,225	25,981,204	33,158,590
Current assets				
Prepayments		**1,225,744**	2,138,355	1,970,781
R&D tax credits		**10,516,989**	4,545,613	8,152,084
Other receivables		**584,821**	485,170	509,350
Short-term investments		**2,500,000**	4,500,000	2,500,000
Cash and short-term deposits		**34,412,363**	52,075,455	50,044,672
		49,239,917	63,744,593	63,176,887
Total assets		**82,082,142**	89,725,797	96,335,477
Equity and liabilities				
Equity				
Issued capital	8	**213,435**	211,812	213,285
Share premium	8	**118,369,522**	116,708,429	118,226,956
Other capital reserves	8	**17,746,031**	13,374,992	16,359,169
Other reserves		**7,000,000**	7,000,000	7,000,000
Accumulated losses		**(96,179,599)**	(63,259,160)	(79,315,920)
Total equity		**47,149,389**	74,036,073	62,483,490
Non-current liabilities				
Provisions	9	**3,993,058**	1,816,000	4,075,386
Interest-bearing loans and borrowings	7	**15,260,753**	1,943,748	18,812,511
Warrant liability	10	**1,534,964**	—	1,346,484
		20,788,775	3,759,748	24,234,381
Current liabilities				
Trade and other payables		**4,983,626**	9,759,117	3,024,026
Accruals		**3,222,983**	2,170,859	4,379,774
Provisions	9	**293,000**	—	274,000
Interest-bearing loans and borrowings	7	**5,644,369**	—	1,939,806
		14,143,978	11,929,976	9,617606
Total liabilities		**34,932,753**	15,689,724	33,851,987
Total equity and liabilities		**82,082,142**	89,725,797	96,335,477

Consolidated statement of cash flows

for the six months ended June 30, 2018

	Notes	**Six months ended June 30, 2018 Unaudited £**	Six months ended June 30, 2017 Unaudited £	Year ended December 31, 2017 Audited £
Operating activities				
Loss before tax		**(19,352,448)**	(27,287,907)	(46,951,138)
Adjustments to reconcile loss before tax to net cash flows from operating activities:				
– Depreciation and impairment of property, plant and equipment		**20,196**	17,469	36,076
– Share-based payment expense		**1,386,862**	1,999,009	3,651,898
– Net foreign exchange (gain)/loss		**(49,305)**	1,040,139	1,384,225
– Provision for social security contributions on employee share options		**29,672**	643,580	1,115,966
– Provision for deferred cash consideration	9	**222,000**	—	—
– Interest earned		**(151, 467)**	(268,913)	(826,855)
– (Gain)/loss on short-term deposits		**(359,897)**	—	338,279
– Accrued interest on convertible loan		**89,707**	69,470	103,115
– Transaction costs on bank loan		**—**	—	200,000
– Interest on bank loan		**900,000**	—	327,123
– Accrued interest on bank loan		**186,963**	—	66,935
– Warrant fair value adjustment	10	**188,480**	—	54,473
Working capital adjustments:				
– Increase in receivables		**720, 819**	(754,370)	(839,751)
– Increase / (decrease) in payables		**1,137,082**	8,720,857	3,860,412
– Tax received		**—**	5,331,271	5,331,271
Net cash flows from operating activities		**(15,031,336)**	(10,489,395)	(32,147,971)
Investing activities				
Purchase of property, plant and equipment		(19,917)	(11,863)	(15,568)
Purchase of license		—	—	(2,280,000)
Disposal of property, plant and equipment		1,084	—	—
Short-term investments		—	(4,500,000)	(2,500,000)
Interest earned		125,838	268,913	1,051,620
Net cash flows received / (used) in investing activities		**107,005**	(4,242,950)	(3,743,948)
Financing activities				
Proceeds from issue of ordinary shares	8	150,228	15,000,000	15,000,000
Transaction costs on issue of shares		(7,511)	(729,632)	(729,632)
Proceeds from issue of bank loan		—	—	20,000,000
Transaction costs on bank loan		—	—	(200,000)
Interest paid on bank loan		(900,000)	—	(327,123)
Net cash flows from financing activities		**(757,283)**	14,270,368	33,743,245
Net (decrease) in cash and cash equivalents		**(15,681,614)**	(461,977)	(2,148,674)
Cash and cash equivalents at the beginning of the period		50,044,672	53,577,571	53,577,571
Effect of exchange rate changes on cash and cash equivalents		49,305	(1,040,139)	(1,384,225)
Cash and cash equivalents at the end of the period		**34,412,363**	52,075,455	50,044,672

Consolidated statement of changes in equity

for the six months ended June 30, 2018

	Issued capital £	Share premium £	Other capital reserves £	Other reserves £	Accumulated losses £	Total equity £
As at January 1, 2017	193,022	99,975,399	12,667,562	7,000,000	(40,579,241)	79,256,742
Loss for the period	—	—	—	—	(22,742,294)	(22,742,294)
Share-based payments – share options	—	—	1,733,093	—	—	1,733,093
Share-based payments - LTIPS	—	—	137,370	—	—	137,370
Share-based payments – deferred bonus shares	—	—	128,546	—	—	128,546
Issue of share capital on April 4, 2017 (Note 8)	15,125	14,984,875	—	—	—	15,000,000
Issue of share capital on conversion of loan note (Note 8)	1,899	1,396,654	—	—	—	1,398,553
Issuance of share capital for Novartis bonus shares	1,766	1,081,133	(1,082,899)	—	—	—
Equity element of convertible loan	—	—	(208,680)	—	—	(208,680)
Conversion of convertible loan	—	—	—	—	62,375	62,375
Transaction costs on issuance of share capital (Note 8)	—	(729,632)	—	—	—	(729,632)
At June 30, 2017 – unaudited	**211,812**	**116,708,429**	**13,374,992**	**7,000,000**	**(63,259,160)**	**74,036,073**
Loss for the period	—	—	—	—	(16,056,760)	(16,056,760)
Share-based payments – share options	—	—	1,294,870	—	—	1,294,870
Share-based payments - LTIPS	—	—	160,917	—	—	160,917
Share-based payments – deferred bonus shares	—	—	197,102	—	—	197,102
Share-based payments – deferred equity consideration	—	—	1,331,288	—	—	1,331,288
Issue of share capital on October 31, 2017 (Note 8)	1,473	1,518,527	—	—	—	1,520,000
At December 31, 2017 – audited	**213,285**	**118,226,956**	**16,359,169**	**7,000,000**	**(79,315,920)**	**62,483,490**
Loss for the period	—	—	—	—	(16,987,544)	(16,987,544)
IFRS 9 restatement (Note 3.1)	—	—	—	—	123,865	123,865
Share-based payments – share options	—	—	1,136,916	—	—	1,136,916
Share-based payments - LTIPS	—	—	159,669	—	—	159,669
Share-based payments – deferred bonus shares	—	—	90,277	—	—	90,277
Issue of share capital on June 1, 2018 (Note 8)	150	150,077	—	—	—	150,227
Transaction costs on issuance of share capital (Note 8)	—	(7,511)	—	—	—	(7,511)
At June 30, 2018 – unaudited	**213,435**	**118,369,522**	**17,746,031**	**7,000,000**	**(96,179,599)**	**47,149,389**

Notes to the interim report

1. Corporate information

The interim condensed consolidated financial statements of Mereo BioPharma Group plc and its subsidiaries (collectively, the "Group") for the six months ended June 30, 2018 were authorised for issue in accordance with a resolution of the Directors on August 8, 2018. Mereo BioPharma Group plc (the "Company" or the "parent") is a public limited company incorporated and domiciled in the United Kingdom and whose shares are publicly traded on the AIM Market of the London Stock Exchange. The registered office is located at Fourth Floor, 1 Cavendish Place, London W1G 0QF.

The Group is principally engaged in the research and development of novel pharmaceuticals.

2. Basis of preparation

The interim condensed consolidated financial statements for the six month period ended June 30, 2018 have been prepared in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the statutory financial statements, and should be read in conjunction with the Group's financial statements as at December 31, 2017.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2017, except for the new accounting polices described in note 3 below. The financial information is presented in Sterling.

These condensed half-yearly financial statements are unaudited and do not constitute statutory accounts of the Group as defined in section 434 of the Companies Act 2006.

The financial information for the year ended December 31, 2017 has been extracted from the Group's published financial statements for that year, and a copy of the statutory accounts for that financial year has been delivered to the Registrar of Companies. The auditors reported on those accounts and their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

3. Adoption of new accounting policies

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

3.1 IFRS 9 Financial Instruments

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

In relation to the non-substantial modification of financial liabilities, IFRS 9 requires the recognition of a modification gain or loss for exchanges or modifications of financial liabilities that do not result in derecognition of the financial liability. As a result, under IFRS 9 the carrying value of the Convertible loan notes at the date of modification, as more fully described in note 7a, was adjusted to recognise the modification gain in the retained earnings as of the date of initial application of IFRS 9 (1 January 2018).

Interest bearing loans and borrowings – Convertible loan notes

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

3.2 IFRS 15 Revenue from Contracts with Customers

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

4. Operating loss

	Six months ended June 30, 2018 Unaudited £	Six months ended June 30, 2017 Unaudited £	Year ended December 31, 2017 Audited £
Employee benefits expense	**3,919,530**	5,292,088	9,299,652
Externally contracted research and development	**9,380,704**	19,763,554	31,321,355
Legal and professional fees including patent costs	**836,301**	402,234	683,668
Current and prior year costs written off in respect of postponed listing on NASDAQ	**2,215,611**	—	—
Operating lease expense	**146,664**	146,664	293,328
Depreciation	**20,196**	17,469	36,076
Other expenses	**1,447,064**	825,202	3,669,764
Total operating loss	**17,966,070**	26,447,211	45,303,843

5. Loss per share

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

As net losses from continuing operations were recorded in the period, the dilutive potential shares are anti-dilutive for the diluted loss per share calculation.

For the six months to June 30, 2018 and 2017

	June 30, 2018 unaudited			June 30, 2017 unaudited		
Group	**Loss £**	**Weighted shares number**	**Loss per share £**	Loss £	Weighted shares number	Loss per share £
IFRS – basic and diluted	(16,987,544)	71,103,042	(0.24)	(22,742,294)	67,218,820	(0.34)
Adjusted – basic and diluted	(13,385,390)	71,103,042	(0.19)	(19,059,570)	67,218,820	(0.28)

For the year to December 31, 2017

	Year ended December 31, 2017 audited		
Group	Loss £	Weighted shares number	Loss per share £
IFRS – basic and diluted	(38,799,054)	69,012,348	(0.56)
Adjusted – basic and diluted	(32,101,862)	69,012,348	(0.47)

Future potential dilution

Number of shares	**At June 30, 2018**	At June 30, 2017	At December 31,2017
Group			
Share options outstanding– all schemes	**10,921,165**	10,491,843	10,702,798
LTIPs and DBS	**1,314,443**	1,213,626	1,213,626
Novartis bonus shares (see Note 8)	**864,988**	864,988	864,988
Novartis convertible loan notes outstanding (see Note 7)	**934,394**	934,394	934,394
Astra Zeneca deferred equity consideration	**1,349,693**	—	1,349,693
Warrants (see Note 10)	**696,490**	—	696,490
Total	**16,081,173**	13,504,851	15,761,989

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of this interim report.

As in previous periods and to ensure better understanding of the underlying trading position of the Group, we have calculated and present a non-GAAP (“adjusted”) financial measure of loss and loss per share. This adjusts for one-off legal and professional fees relating to non-recurring events together with the non-cash IFRS charges relating to share based payments and the non-trading foreign exchange gains (or losses) in respect of the period end translation of foreign denominated cash balances. These adjustments are set out in the table below. The adjusted loss per share is calculated on the same basis as the basic and diluted loss per share under IFRS.

	Six months ended June 30, 2018 Unaudited £	Six months ended June 30, 2017 Unaudited £	Year ended December 31,2017 Audited £
Group			
Loss for the period	**(16,987,544)**	(22,742,294)	(38,799,054)
Share-based payments	**1,386,862**	1,999,009	3,651,898
Provision for social security on share options	**29,672**	643,576	1,115,966
Current and prior year costs written off in respect of postponed listing on NASDAQ	**2,215,611**	—	75,326
Corporate finance costs	**14,414**	—	131,538
Acquisition of intangible assets	**4,900**	—	338,239
Net loss / (gain) on foreign exchange	**(49,305)**	1,040,139	1,384,225
Adjusted loss	**(13,385,390)**	(19,059,570)	(32,101,862)

6. Intangible assets

	Acquired development programs £
Cost at January 1, 2018 and June 30, 2018	**33,005,229**
Amortisation and impairment	
At January 1, 2018	—
Revision to estimated value	(315,000)
At June 30, 2018	(315,000)
Net book value	
At January 1, 2018	33,005,229
At June 30, 2018	**32,690,229**

	Acquired development programs £
Cost at July 1, 2017	**25,812,941**
Additions	**7,192,288**
At December 31, 2017	**33,005,229**
Amortisation and impairment	
At July 1, 2017	—
Impairment	—
At December 31, 2017	**—**
Net book value	
At July 1, 2017	25,812,941
At December 31, 2017	**33,005,229**

	Acquired development programs £
Cost at January 1, 2017 and June 30, 2017	25,812,941
Amortisation and impairment	
At January 1, 2017	—
Impairment	—
At June 30, 2017	—
Net book value	
At January 1, 2017	25,812,941
At June 30, 2017	25,812,941

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

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

	June 30, 2018 Unaudited £	**December 31, 2017** Audited £
Cash payment in October 2017	2,280,000	2,280,000
Equity issued	1,520,000	1,520,000
Deferred equity consideration	1,331,288	1,331,288
Present value of provision for deferred cash consideration	1,746,000	2,061,000
	6,877,288	**7,192,288**

The present value of the provision for deferred cash consideration was reviewed at June 30, 2018 (see note 9). The decrease in present value due to changes in timelines and probability of contractual milestones being achieved was £315,000 and is recognized as a reduction of the intangible asset in line with our accounting policies.

7. Interest bearing loans and borrowings

	Six months ended June 30, 2018 Unaudited £	Six months ended June 31, 2017 Unaudited £	Year ended December 31, 2017 Audited £
Convertible loan notes - see Note 7a	**1,943,235**	1,943,748	1,977,393
Bank loan -see Note 7b	**18,961,887**	—	18,774,924
At end of year/period	**20,905,122**	1,943,748	20,752,317
Current	**5,644,369**	—	1,939,806
Non-current	**15,260,753**	1,943,748	18,812,511

7a. Convertible loan note

On April 26, 2017 Novartis converted £1,398,553 of loan Notes ("Novartis Notes") into 632,829 ordinary shares at the fixed conversion price of £2.21 per share. This has been recorded as a £1,187,974 reduction in interest bearing loans and borrowings, a reduction in other capital reserves of £208,680 and a reduction in accumulated losses of £62,375. Under the terms of the Notes, Novartis also received 588,532 bonus shares. Novartis holds £2,065,011 principal value of Notes at June 30, 2018 representing 934,394 ordinary shares if converted, together with 864,988 potential bonus shares, together these represent 2.5% of the current share capital of the Company as at June 30, 2018.

In August 2017, in connection with the new loan agreements (see Note 7b), Novartis agreed to amend the terms of its Novartis Notes. Under the revised terms of the Novartis Notes, the loan is subordinated to the Silicon Valley Bank and Kreos Capital loan such that Novartis shall be entitled, at any time up to the repayment of the foregoing loan, being March 2, 2021, to serve a conversion notice on the Company to convert all or some only of the outstanding Novartis Notes into fully paid ordinary shares at a conversion price of £2.21 per share. To the extent the Novartis Notes are not converted at that date, the outstanding principal amount of the Novartis Notes, together with any accrued and unconverted interest, is redeemable. Upon conversion of any Novartis Notes, in addition to the relevant number of conversion shares, Novartis is entitled to receive an additional number of ordinary shares in the Company equal to the number of conversion shares into which such Novartis Notes are to convert, multiplied by 0.93, up to a maximum aggregate number of 864,988 such bonus shares.

The value of the debt component of the Notes at the date of issue was calculated as £2,946,761. The cash flows attached to the Note up to the Maturity Date were calculated and discounted at an appropriate venture debt rate of 10%. The carrying amount at June 30, 2018 is £1,943,235 (June 30, 2017: £1,943,748). The carrying amount at December 31, 2017 was £1,977,393. The Group has applied IFRS 9 Financial Instruments in full without restating comparatives with an initial date of application of January 1, 2018 (see Note 3.1).

The value of the equity component of the Notes at June 30, 2018 is £308,123 (June 30, 2017: £308,123). The value of the equity component of the Notes at December 31, 2017 was calculated as £308,123.

7b. Bank loan

On August 7, 2017, the Group entered into a loan agreement with Silicon Valley Bank and Kreos Capital V (UK) Limited, which provides for total borrowings of £20.0 million and the issue of warrants over shares in the Company (see Note 10). £10.0 million was drawn down on each of August 21, 2017 (Tranche 1) and December 29, 2017 (Tranche 2) for general working capital purposes. The Group is obligated to make interest-only payments on the loan amount until September 30, 2018, and thereafter the Group is obligated to pay interest and principal in 30 equal monthly instalments until March 31, 2021, the maturity date. The loan bears interest at an annual fixed rate equal to 9.0%. In addition a final payment of 7.5% of the principal loan amount is due upon the earlier of the maturity date, prepayment in whole of the loan amount, mandatory repayment, acceleration of the loan, and the loan becoming immediately due and payable due to an event of default. The loan is secured by substantially all of the Group's assets, including intellectual property rights owned or controlled by the Group. The terms of the debt facility include an interest only period to September 30, 2018, a thirty-month capital and interest repayment period thereafter, a 9% headline interest rate and customary security over all assets of the Group.

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

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

The total carrying value of the loan at June 30, 2018 was £18,961,888. £5,644,369 is a current liability and £13,317,519 is a non-current liability. A total of £186,963 of non-cash interest has been charged to the statement of comprehensive loss in the period. The total carrying value of the loan at December 31, 2017 was £18,774,924.

8. Issued capital and reserves

	Six months to June 30, 2018 unaudited	Six months to June 30, 2017 unaudited	Year ended December 31, 2017 Audited
	£	£	£
Ordinary share capital			
Balance at beginning of year/period	**213,285**	193,022	193,022
Issuances in the period	**150**	18,790	20,263
Nominal share capital at end of year/period	**213,435**	211,812	213,285

Ordinary shares issued and fully paid	
At January 1, 2018	**71,094,974**
Issued on June 1, 2018 for financing round	**50,076**
At June 30, 2018	**71,145,050**
Nominal value at June 30, 2018 (£)	**0.003**
Issued capital at June 30, 2018 (£)	**213,435**

Ordinary shares issued and fully paid	
At January 1,2017	**64,340,798**
Issued on April 3, 2017 for placing for cash	**5,042,017**
Issued on April 26, 2017 for conversion of loan Note	**1,221,361**
At June 30, 2017	**70,604,176**
Nominal value at June 30, 2017 (£)	**0.003**
Issued capital at June 30, 2017 (£)	**211,812**

Ordinary shares issued and fully paid	
At July 1, 2017	**70,604,176**
Issued on October 28, 2017 for acquisition of licence	**490,798**
At December 31, 2017	**71,094,974**
Nominal value at December 31, 2017 (£)	**0.003**
Issued capital at December 31, 2017 (£)	**213,285**

Since 1 January 2018, the following alterations to the Company's share capital have been made:

- Under a placement dated May 29, 2018, issue and allotment of 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.

	£
Share premium	
At January 1, 2018	118,226,956
Issued on June 1, 2018 for placing for cash	150,077
Transaction costs for issued share capital	(7,511)
At June 30, 2018 unaudited	**118,369,522**

	£
Share premium	
At January 1, 2017	99,975,399
Issued on April 3, 2017 for placing for cash	14,984,875
Issued on April 26, 2017 for conversion of loan Note	2,477,787
Transaction costs for issued share capital	(729,632)
At June 30, 2017 unaudited	**116,708,429**
Issued on October 28, 2017 for acquisition of licence	1,518,527
At December 31, 2017 audited	**118,226,956**

Other capital reserves

	Shares to be issued £	Share-based payments £	Equity component of convertible loan £	Total £
At January 1, 2018	1,591,578	14,459,469	308,122	16,359,169
Share-based payments expense during the period	—	1,386,862	—	1,386,862
At June 30, 2018 unaudited	**1,591,578**	**15,846,331**	**308,122**	**17,746,031**

	Shares to be issued £	Share-based payments £	Equity component of convertible loan £	Total £
At January 1, 2017	2,674,477	9,476,283	516,802	12,667,562
Share-based payments expense during the period	—	1,999,009	—	1,999,009
Shares issued	(1,082,899)	—	—	(1,082,899)
Equity component of convertible loan instrument	—	—	(208,680)	(208,680)
At June 30, 2017 unaudited	**1,591,578**	**11,475,292**	**308,122**	**13,374,992**
Share-based payments expense during the period	—	2,984,177	—	2,984,177
At December 31, 2017 audited	**1,591,578**	**14,459,469**	**308,122**	**16,359,169**

Share-based payments

The Group has a share option scheme under which options to subscribe for the Group's shares have been granted to certain Executives, Non-Executive Directors and employees.

The share-based payment reserve is used to recognise 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.

Period to June 30, 2018

The total charge for the six months to June 30, 2018 in respect of all share option schemes was 1,386,862 (June 30, 2017: £1,999,099).

On April 26, 2018, the Company granted 100,817 options under the Deferred Bonus Share Plan to certain directors and certain other persons discharging managerial responsibility. The weighted average fair value of options granted was £3.23. The exercise price is £nil.

On May 2, 2018 the Company granted 303,000 options to certain employees under the Mereo BioPharma Group plc share Option Plan. The weighted average fair value of options granted was £2.38. The exercise price is £3.25.

Shares to be issued

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

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

Equity component of convertible loan instrument

The convertible loan Notes issued to Novartis are a compound instrument consisting of a liability and an equity component. The value of the equity component (cost of the conversion option) as at June 30, 2018 is £308,122 (June 30, 2017: £308,122). The value of the equity component (cost of the conversion option) as at December 31, 2017 was £308,122.

9. Provisions

	Six months to June 30, 2018 Unaudited £	Six months to June 30, 2017 Unaudited £	Year ended December 31, 2017 Audited £
Social security contributions on share options	**2,318,058**	1,816,000	2,288,386
Provision for deferred cash consideration	**1,968,000**	–	2,061,000
At end of year/period	**4,286,058**	1,816,000	4,349,386
Current	**293,000**	–	274,000
Non-current	**3,993,058**	1,816,000	4,075,386

social security contributions on share options	Six months to June 30, 2018 Unaudited £	Six months to June 30, 2017 Unaudited £	Year ended December 31, 2017 Audited £
At beginning of year/period	**2,288,386**	1,172,420	1,172,420
Arising during the year/period	**29,672**	643,580	1,115,966
At end of year/period	**2,318,058**	1,816,000	2,288,386
Current	**–**	–	–
Non-current	**2,318,058**	**1,816,000**	**2,288,386**

The provision for social security contributions on share options is calculated based on the number of options outstanding at the reporting date that are expected to be exercised. The provision is based on the estimated gain arising on exercise of the share options, using the best estimate of the market price at the balance sheet date. Since the Directors assume the options will be held for their full contractual life of ten years, the liability has been classified as non-current. The provision has been discounted.

Provision for deferred cash consideration	Six months to June 30, 2018 Unaudited £	Year ended December 31, 2017 Audited £
At beginning of year/period	**2,061,000**	—
Arising during the year/period	**—**	2,061,000
Increase in provision due to the unwinding of the time value of money	**222,000**	—
Decrease in provision due to a change in estimates relating to timelines and probabilities of contractual milestones being achieved (see Note 6)	**(315,000)**	—
At end of year/period	**1,968,000**	2,061,000
Current	**293,000**	274,000
Non-current	**1,675,000**	1,787,000

The deferred cash consideration is the estimate of the quantifiable but not certain future cash payment obligations due to AstraZeneca for the acquisition of certain assets. 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.

10. Warrant liability

	Six months to June 30, 3018 Unaudited £	Year ended December 31, 2017 Audited £
At beginning of year/period	**1,346,484**	—
Arising during the year/period	**188,480**	1,346,484
At end of year/period	**1,534,964**	1,346,484

As part of the bank loan facility (see Note 7b), 363,156 warrants to subscribe for shares were issued to the lenders on August 21, 2017. These warrants will be capable of exercise until August 7, 2027 at an exercise price of £3.029. A further 333,334 warrants were issued to the lenders on December 29, 2017. These warrants will be capable of exercise until August 7, 2027 at an exercise price of £3.30. The total of 696,490 warrants is equivalent to 0.98% of ordinary share capital at June 30, 2018.

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

The following table lists the weighted average inputs to the models used for the fair value of warrants:

	Six months to June 30, 2018	Year ended December 31, 2017
Expected volatility (%)	**67**	50-51
Risk-free interest rate (%)	**1.38**	1.10–1.25
Expected life of share options (years)	**9.3**	9.6-10
Market price of ordinary shares (£)	**3.12**	3.00–3.25
Model used	Black Scholes	Black Scholes

The fair value of the warrants at grant was £1,292,011. At June 30, 2018 it was £1,534,964 and at December 31, 2017 it was £1,346,484.

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.

11. Related party disclosures

Transactions between the parent and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Novartis holds 13,767,841 shares in the Company at June 30, 2018 (June 30, 2017 and December 31, 2017: 13,767,841). Novartis holds £2,065,011 principal value of Notes at June 30, 2018 (June 30, 2017 and December 31, 2017: £2,065,011). On 3 June 2016, the Group issued 3,463,563 £1 unsecured convertible loan notes (“Notes”) to Novartis and received £3,463,563 from Novartis in consideration (note 7a).

On the 26 April 2017 Novartis converted £1,398,552 of the Notes into 632,829 ordinary shares at the fixed conversion price of £2.21 per share. Under the terms of the Notes, Novartis also received 588,532 ordinary shares.

12. Events after the reporting period

On July 23, 2018 the Company issued, conditional on admission, 95,222 ordinary shares of £0.003 each in the capital of the Company, pursuant to an exercise of employee share options.

In early August 2018, the Group received the FY 2017 R&D tax credit of £8.2m.